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Annotation

Federal Grid Company's 2012 Report on Social Responsibility and Corporate Sustainability is the sixth report of Federal Grid Company (the Company) in the field of sustainable development, demonstrating the Company's focus on increasing the level of transparency and the quality of stakeholder engagement. This Report has been prepared in accordance with the following international standards: GRI Sustainability Reporting Guidelines (version 3.1) and Energy Protocol, Reporting Guidelines by Transparency International, an international non-governmental corruption research organization, AA1000SES Stakeholder Engagement Standard.

The Report covers the activities of Federal Grid Company, its branches – Backbone Electric Grids (MES), as well as directly subordinated subsidiaries and dependent companies listed in paragraph 1.1 of the Report. The GRI application level is B +.

"Human Capital Management in Federal Grid Company" is the priority theme of this Report.

The previous report was devoted to the implementation of the Company's Youth Policy as part of the personnel management process. Therefore, we can assume that the 2012 Report focus is more large-scale compared to the previous report.

The Report also describes the approaches to the management of sustainable development, efficiency in the socio-economic impact, environmental impact figures, approaches to the implementation of anti-corruption activities undertaken by the Company during the reporting period, as well as information on reliability assurance and innovative development.

The Report includes information on the execution of the 2012 plans and commitments.

To know the stakeholders' opinions, in the preparation of this Report, the Company held a dialog with stakeholders on the topic "Human Capital Management in Federal Grid Company" on April 5, 2013.

After the Report had been prepared, it was discussed at the public hearing held on the basis of the AA1000SES standard. One of the outcomes was the signing by the stakeholders' representatives of the Opinion on public assurance of the Report.

Statement of the Chairman of the Management Board

DEAR COLLEAGUES, PARTNERS AND FRIENDS!

The principles of sustainable development and corporate social responsibility are among the Company's main priorities that have been determining the activity of the Company since it was founded. In turn, the public reporting over the past six years has enabled the intake of objective feedback from the public.

2012 was a special year for the Company, marking its 10th anniversary. In this regard, this Report presents a retrospective look at our work in the formation of the socially oriented company in recent years.

Our achievements are the result of hard work from all the employees of Federal Grid Company. It is them who are the pride and the key value of the company!

Awareness of the role of each employee in the overall success changes approaches to personnel development – from human resources management to human capital management. Therefore, Federal Grid Company places high emphasis on attracting young professionals and interacting with universities, develops the reserve personnel system, and actively implements new housing programs. Our experience is invaluable, and the Company will use it in making future plans for the development of corporate social policy.

It is also important for us that the Federal Grid CompanyFederal Grid Company's sustainable development activities have earned the approval of state authorities, partners and the professional community. In 2012, the Ministry of Energy of the Russian Federation marked Federal Grid Company's contribution to the development of social policy in the power industry. The Company's 2011 Social Responsibility and Sustainability Report was recognized as the best social report in the country, and in the framework of the Second St. Petersburg International Legal Forum, Federal Grid Company was named one of the leaders in the implementation of anti-corruption policy among the power industry enterprises of the Russian Federation.

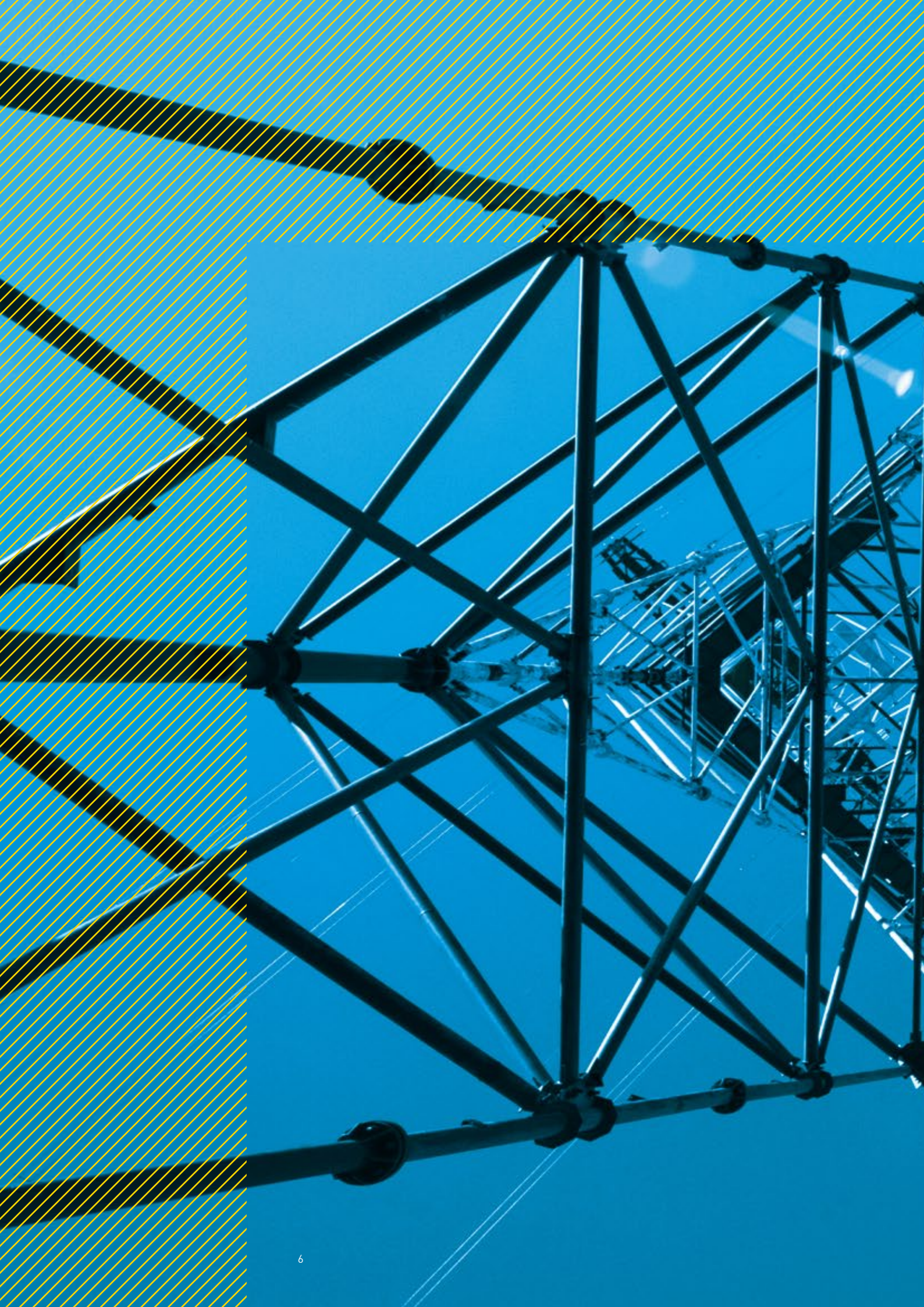
Carrying out its mission to ensure a reliable energy supply to the country, Federal Grid Company is counting on the support of all interested parties - shareholders and investors, universities, research institutions, and equipment manufacturers.

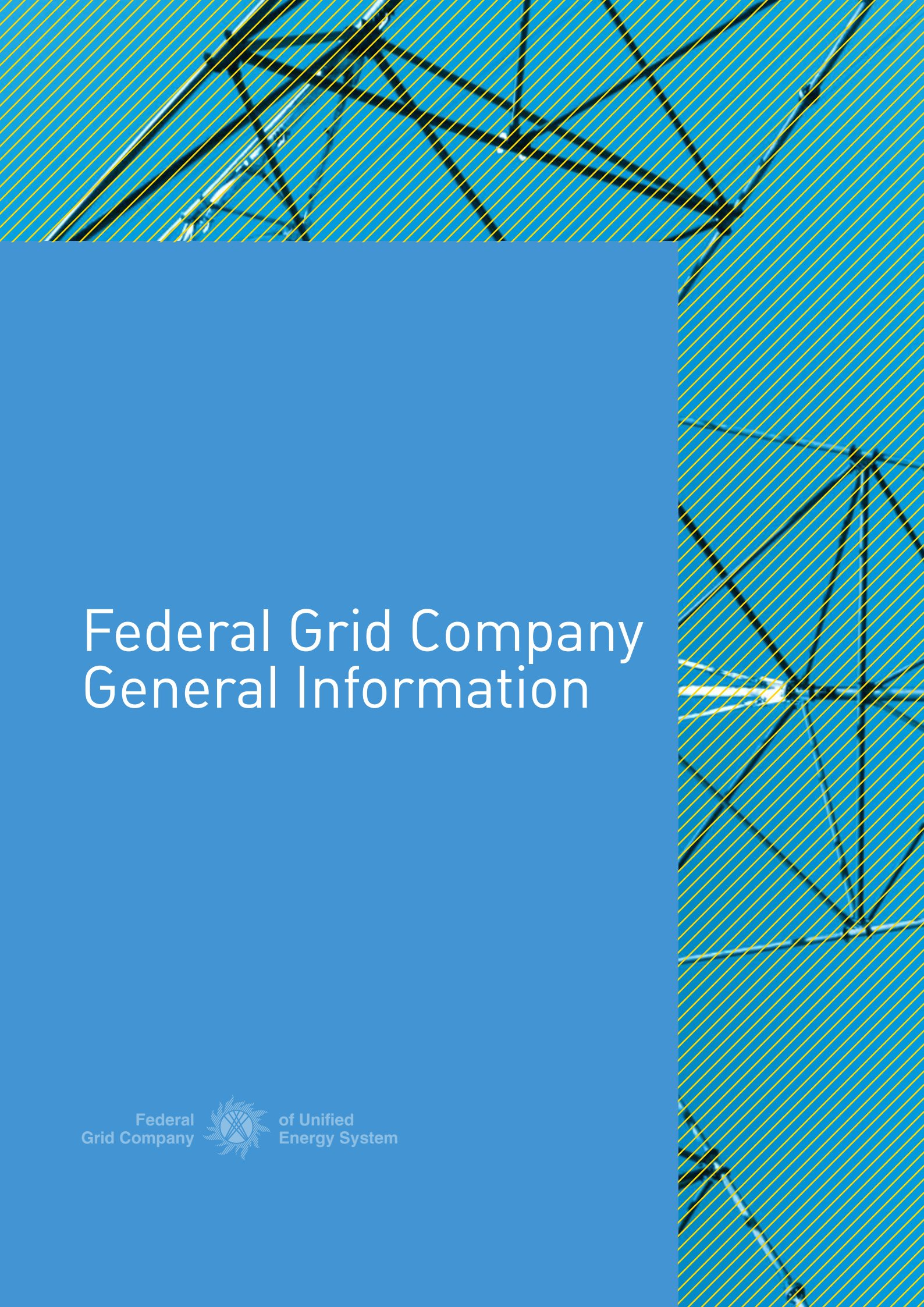
Goals can only be achieved together!

Kind regards,

Oleg Budargin

Chairman of the Management Board, Federal Grid Company





Federal Grid Company General Information

Federal Grid Company of Unified Energy System

General Information

Federal Grid Company of the Unified Energy System was established in 2002 in accordance with Russia's power sector reform as an organization to manage the Unified National Electric Grid (UNEG) for its maintenance and development.

The Company's headquarters are located at 117630, Moscow, Academic Chelomeya Street, 5A.

In accordance with Federal Law № 35-FZ "On Electric Power Industry" dated 26.03.2003, Federal Grid Company is a natural monopoly that provides services for the electricity transmission of electricity though the Unified National Electric Grid (UNEG) and is responsible for the reliable reliability of the supply of electricity supply in the territory of the Russian Federation.

The Company operates almost on the entire territory of the Russian Federation. The Company's electric grid facilities are located in 75 Russian regions.

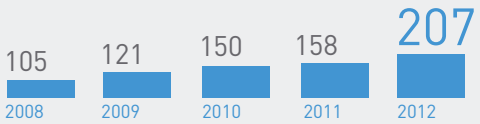
Company's geographical scope

The number of consumers with which the Company signed agreements for electricity transmission through the UNEG has significantly increased during the 2008-2012 period. Growth in the number of consumers is due to:

— Implementation of new technological connections to the UNEG;

— Step-by-step termination of the "last mile" mechanism etc.

Number of the Company's Consumers



The main consumers of technological connection to the Company's grids are:

— Large-scale business (oil and steelmaking industries, manufacture of construction materials, etc.)

— Construction and reconstruction of integrated real estate facilities;

— Distribution grid companies.

Major Consumers of Technological Connection to Federal Grid Company's Grids

Large-scale business (oil and steelmaking industries, manufacture of construction materials, etc.)

Distribution grid companies

Other

The structure of major consumers of the UNEG-based electricity transmission services is as follows:

— Distribution grid companies (DGC);

— Independent grid companies (IGC);

— Retail suppliers (RS);

— Large power consumer companies;

— Exporters of electricity.

Consumer breakdown by category (share in the total quantity)

DGC

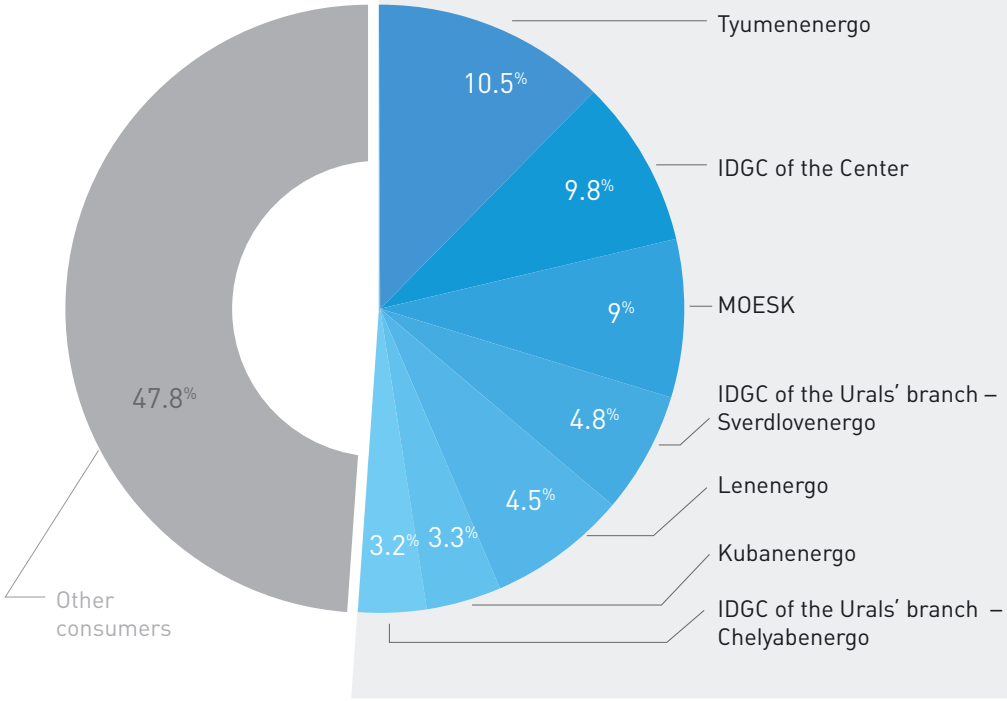
RS

IGC

Consumers

Exporters

The share of the Company's largest consumers in 2012 revenues from UNEG electricity transmission services



Key Operational Indicators

	2008	2009	2010	2011	2012
Number of substations, pcs	800	804	805	854	891
Length of power transmission lines, total, thousand km	121.5	121.1	121.7	124.6	131.6
Electric energy supplied to the grids of the distribution grid companies, to direct consumers and to the independent JSC-Energo, net (kWh, million)	471,958.118	452,662.172	470,648.072	484,663.552	498,287.684
Electric energy supplied via UNEG grids to bordering states, net (kWh, million)	16,704.763	13,628.309	15,716.33	19,284.808	15,768.82
Capacity demand (MW)	90,042	94,636	91,179	90,937	90,492
Electric energy losses in the UNEG grids (kWh, million)	21,866	22,121	22,526	22,553	21,946

Shares and Shareholding Structure

In accordance with the Company's Articles of Association, as of 31 December 2012, the share capital of Federal Grid Company stood at RUR630,193,329,370, divided into 1,260,386,658,740 ordinary registered non-documentary shares with a nominal value of RUR0.50 each share.

The Company has more than 400,000 shareholders.

The Russian Federation, represented by the Federal Agency for State Property Management (Rosimushchestvo), which owns 79.55% of the share capital, is the largest shareholder.

Shareholding Structure

Minority shareholders

20.45%

For the purpose of improving shareholders relations, the Company analyzed the shareholders database and identified key shareholder groups, ordinary shares and DRs holders. The Company's free float stood at 20.45%. The main minority shareholders of the Company are institutional investors and holding structures, with retail investors accounting for 2.14%.

The Company's largest minority shareholders, owning more than 1% of Federal Grid Company shares, are:

— Tsentrenergokholding (2.6534%);

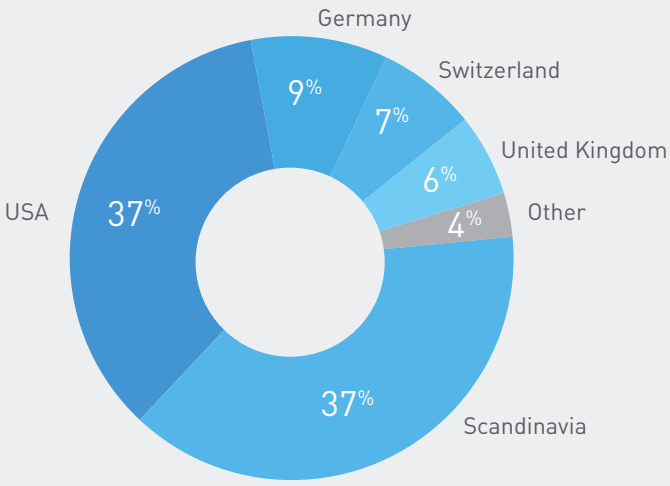
— Rusenergo Fund Limited (1.6922%) - Russia's largest fund in the energy sector, whose funds are invested in stocks of Russian electricity generators and electric grid companies;

— Sberbank of Russia (1.1252%) - a professional securities market participant that deals with securities of the most reliable and investment-attractive issuers;

— Index of Energy FGC UES company (1.0891%).

20% of the Company's free float includes: foreign institutional investors, such as major funds focused primarily on Russia, whose assets under management exceed USD 1 billion: Market Vectors ETF Trust Russia ETF (USD 1.8 billion), East Capital Russian Fund (USD 1.5 billion), Swedbank Robur (USD 1.2 billion) and BlackRock funds.

Investor Breakdown by Geography



As before, American and Scandinavian shareholders account for the largest share (37%) of foreign investments.

The Company's shareholders are predominantly long-term investors, with low portfolio turnover exceeding two years.

On November 22, 2012 Russian President Vladimir Putin signed Decree "On Open Joint Stock Company Russian Grids". The Decree stipulates re-naming JSC IDGC Holding as JSC Russian Grids and contributing to the share capital of Russian Grids 79.55% State-owned shares in Federal Grid Company as the Russian Federation contribution.

Organizational Structure

As of 31 December 2012, the Company's functional structure incorporated:

— Head Office (Moscow);

— 8 backbone electric grids (MES), branches;

— 41 backbone electric grid transmission line companies (PMES), branches;

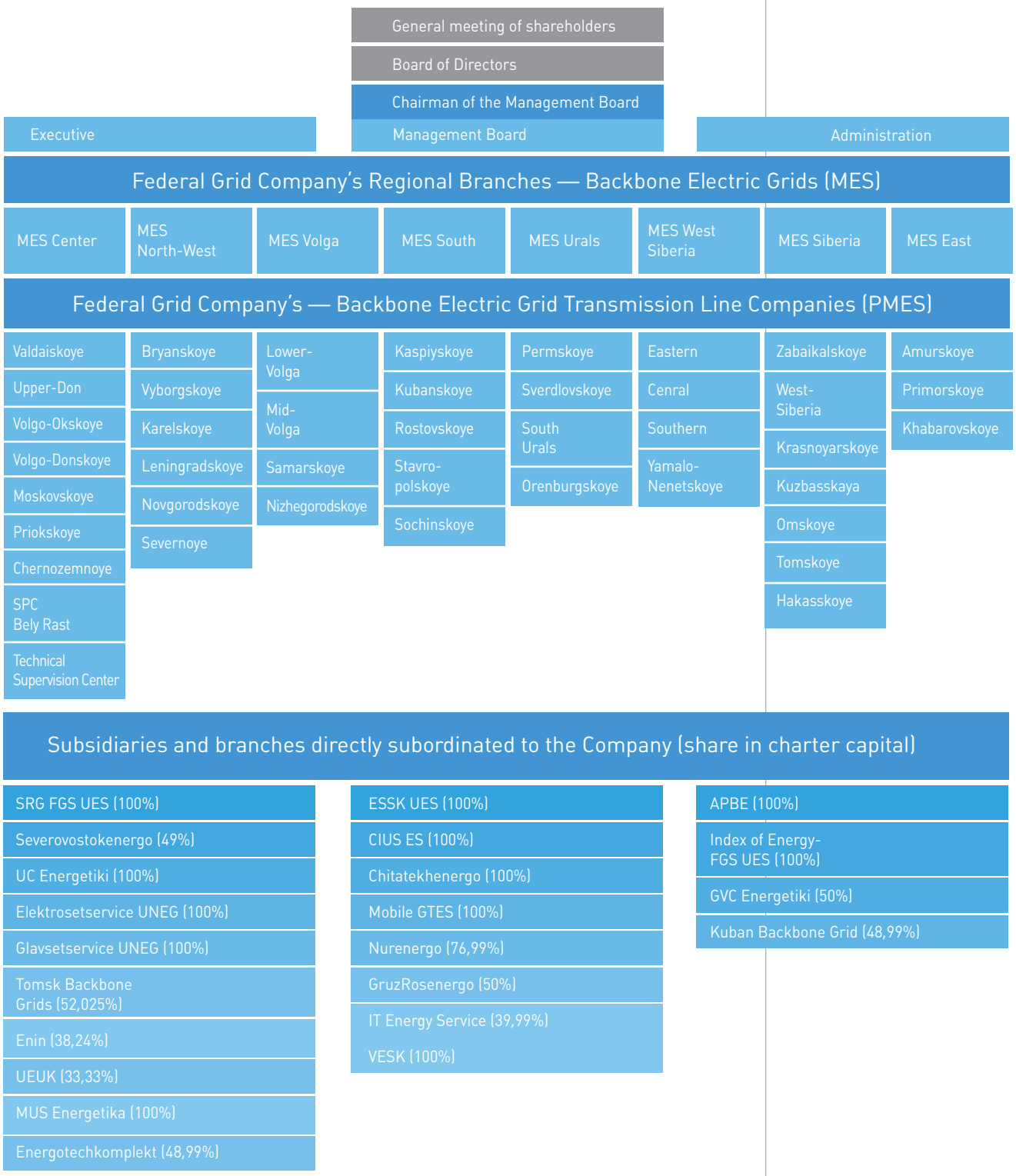
— 1 dedicated production base "Bely Rast", branches;

— 1 Technical Supervision Center, branch.

As of December 31, 2012, Federal Grid Company has 22 subsidiary and dependent companies (SDCs) operating in different sectors of economy, including supporting electric grid facilities. Tomsk Backbone Grids and Kuban Backbone Grids are subsidiary backbone grid companies.

In 2012, SDC Central Research Institute NPKenergo (100%) was voluntarily liquidated.

UEUK (33.33%) and UC Energetiki (100%) are also under liquidation.


General meeting of shareholders
Board of Directors
Chairman of the Management Board
Management Board
Executive
Administration
Federal Grid Company's Regional Branches — Backbone Electric Grids (MES)
MES Center
MES North-West
MES Volga
MES South
MES Urals
MES West Siberia
MES Siberia
MES East
Federal Grid Company's — Backbone Electric Grid Transmission Line Companies (PMES)
Valdaiskoye
Upper-Don
Volgo-Okskoye
Volgo-Donskoye
Moskovskoye
Priokskoye
Chernozemnoye
SPC Bely Rast
Technical Supervision Center
Bryanskoye
Vyborgskoye
Karelskoye
Leningradskoye
Novgorodskoye
Severnoye
Lower-Volga
Mid-Volga
Samarskoye
Nizhegorodskoye
Kaspiyskoye
Kubanskoye
Rostovskoye
Stavro-polskoye
Sochinskoye
Permskoye
Sverdlovskoye
South Urals
Orenburgskoye
Eastern
Cenral
Southern
Yamalo-Nenetskoye
Zabaikalskoye
West-Siberia
Krasnoyarskoye
Kuzbasskaya
Omskoye
Tomskoye
Hakasskoye
Amurskoye
Primorskoye
Khabarovskoye
Subsidiaries and branches directly subordinated to the Company (share in charter capital)
SRG FGS UES (100%)
Severovostokenergo (49%)
UC Energetiki (100%)
Elektrosetservice UNEG (100%)
Glavsetservice UNEG (100%)
Tomsk Backbone Grids (52,025%)
Enin (38,24%)
UEUK (33,33%)
MUS Energetika (100%)
Energotechkomplekt (48,99%)
ESSK UES (100%)
CIUS ES (100%)
Chitatekhenergo (100%)
Mobile GTES (100%)
Nurenergo (76,99%)
GruzRosenergo (50%)
IT Energy Service (39,99%)
VESK (100%)
APBE (100%)
Index of Energy-FGS UES (100%)
GVC Energetiki (50%)
Kuban Backbone Grid (48,99%)

The Company's Mission and Values

Our Mission is to ensure reliable Unified National Electric Grid (UNEG) operation and development for the economic growth of Russia and uninterrupted power supply to consumers across all Russian regions.

Federal Grid Company manages a unique infrastructure that brings together the main units of electricity generation and consumption in the country in the unified system.

The integration of a several-thousand-strong team of the Company largely depends on how much the same way employees understand ethical and professional guidelines.

In the course of doing work, specifically organized and collectively carried out, the Company established the range of the values that are important for the Company's team to carry out their mission.

Federal Grid Company's value ring shows how the Company's strategic goals (the outer circle) are achieved with the help of corporate values (inner circle), with a key role being played by Company's biggest asset - its employees.

Employees

People are the Company's main asset. Uninterrupted power supply to the regions, largest companies, cities and towns depends on the well-coordinated work of the Company's employees. Therefore, the Company values each employee, regardless of age, gender, nationality and position, providing equal opportunities for successful work, professional development and career growth.

Development

Federal Grid Company aims to match the country's pace of development, learn new knowledge, and implement innovations. Working in the Company requires that each employee not only meet the qualification requirements at the time of getting an employment, but wish to constantly develop.

Efficiency

The Company is one team aimed at the overall result – an uninterrupted power supply to its consumers. Federal Grid Company's employees must strive to solve all the problems in the set time frame and with reasonable resource costs.

Professionalism

Federal Grid Company places high demands on employees' professionalism and gives special attention to the problem of forming suitable personnel. Giving employees an equal opportunity to prove themselves, the Company promotes the best, entrusting them new functions and projects and creating the conditions for their career growth.

Responsibility

Federal Grid Company's employees must perform their duties with maximum responsibility, not to commit neglect and try to avoid mistakes. The Company, for its part, is striving to provide its employees a fair wage, good benefits package, safe and comfortable working conditions.

Trust

Trust in colleagues and confidence in their professionalism, honesty and openness allow the Company's team members to effectively cope with the tasks and give the Company a high prestige in the eyes of partners and consumers. Federal Grid Company values its reputation and is striving to maintain and improve it through daily reliable and high quality work.

The above-mentioned Mission and Values are reflected in the Code of Corporate Ethics, which was adopted in 2009. In 2010 and 2011, it was updated*.

* Order № 567 of Federal Grid Company's Chairman of the Management Board (dated 19.09.2011) on the Code of Corporate Ethics.

Corporate Governance

Federal Grid Company of Unified Energy System

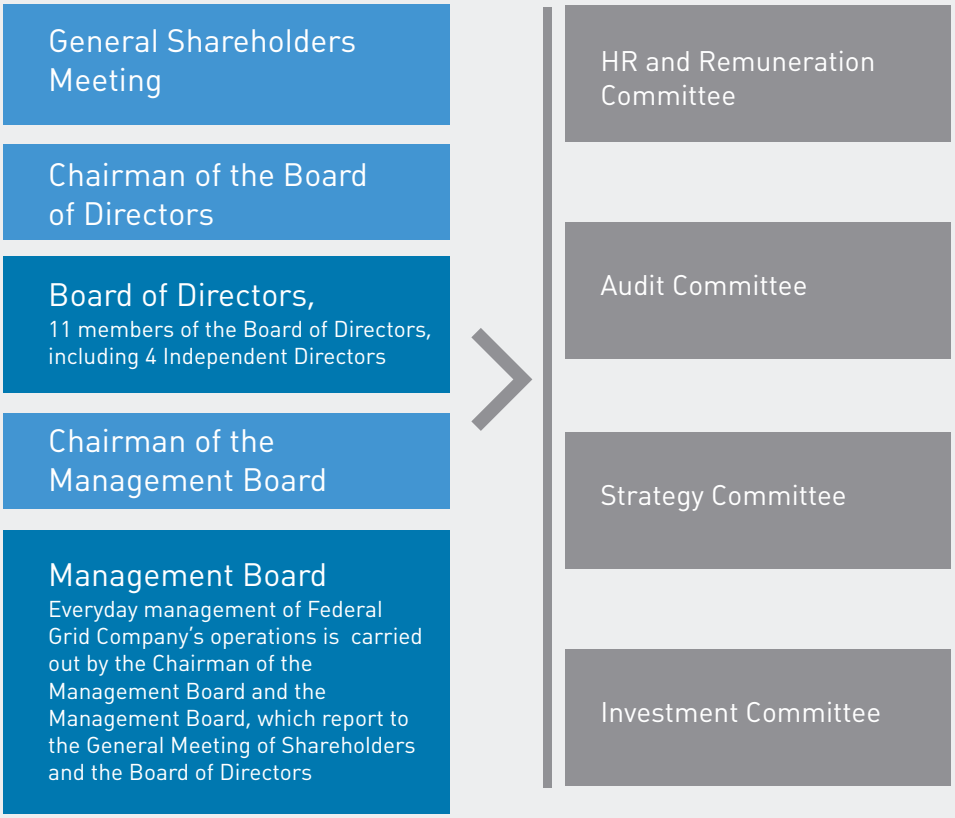
Federal Grid Company's Governance Structure

The Company's supreme management body is the General Meeting of Shareholders. The Board of Directors determines the strategy and main areas of the Company's development and supervises the operations of the executive bodies in the interests of the Company and its shareholders.

In its activities, the Board of Directors of Federal Grid Company is guided by the Federal Law "On Joint Stock Companies", Russian legislation and the Company's internal documents: the Articles of Association, the Code of Corporate Governance, the Regulations of the Board of Directors Activities.

The Board of Directors shall be elected by the General Meeting of Shareholders via cumulative voting for a period of one year. The Board shall include 11 members, 6 of whom should be representatives of the State according to the Company's Articles of Association.

Federal Grid Company's Governance Structure



Composition of the Board of Directors acting from 29 June 2012, Committees of the Board of Directors and the Management Board of Federal Grid Company

Board of Directors

11 members of the Board of Directors, including 4 Independent Directors

1. Ernesto Ferlenghi
2. Andrey Malyshev
3. Oleg Budargin
4. Boris Ayuev
5. Rashid Sharipov
6. Vladimir Rashevsky
7. Elena Titova
8. Vyacheslav Kravchenko
9. Ilya Scherbovich
10. Boris Kovalchuk
11. Denis Fedorov

Board of Directors' Committees

Currently, four Committees have been established and are operating in the Company

Audit Committee
Chairman of Committee - Rashid Sharipov

HR and Remuneration Committee
Chairman of Committee - Denis Fedorov

Investment Committee
Chairman of Committee - Andrey Malyshev

Strategy Committee
Chairman of Committee - Vyacheslav Kravchenko

Management Board

Everyday management of Federal Grid Company's operations is carried out by the Chairman of the Management Board and the Management Board, which are subordinate to the General Meeting of Shareholders and the Board of Directors

1. Oleg Budargin
2. Andrey Kazachenkov
3. Andrey Murov
4. Roman Berdnikov
5. Yuri Mangarov
6. Andrey Cherezov
7. Nikolay Varlamov
8. Vladimir Shukshin
9. Sergey Sergeyev
10. Valery Sedunov

According to local regulatory documents of Federal Grid Company, a person performing the functions of the sole executive body may not be at the same time the Chairman of the Board of Directors of the Company.

The members of the Management Board may not comprise more than 25% of the Board of Directors of the Company. The members of the Management Board are allowed to combine their positions in the management bodies of other organizations only with the consent of the Board of Directors of the Company.

The Board of Directors of Federal Grid Company consists of 4 independent directors (out of 11 directors): Vladimir Rashevsky, Chairman of the Management Board, SUEK; Elena Titova, Chairman of the Management Board, All-Russian Regional Development Bank; Rashid Sharipov, Deputy General Director, KFK – Consult; Ilya Shcherbovich, President, United Capital Partners (UCP) Group of Companies.

The Audit Commission is elected annually by the General Meeting of Shareholders to control the Company's financial and business operations.

In Federal Grid Company there are mechanisms designed to prevent conflicts of interest in the supreme governing body - the Board of Directors:

1. The Members of the Board of Directors are recommended that they refrain from dealing in the Company's securities during the period when they have an access to insider information.

2. The Members of the Board of Directors' obligations not to disclose insider information, as provided by the Regulation "On insider information", shall remain in force for a period not less than six months after the elimination of the grounds on which the person is recognized as an insider, unless a longer period is provided by the agreement between the insider and the Company, or internal documents of the Company.

3. The members of the Board of Directors of the Company are required to disclose to the Audit Committee of the Board of Directors of the Company any information on the ownership of the Company's securities, as well as the sale (no later than 5 days) and/or purchase of the Company's securities.

4. Not later than the third day of the month following the reporting month, insiders are required to submit to the insider information control department a written declaration of transactions made during the reporting month with the Company and/or SDCs securities.

In the event of a conflict of interest, the Chairman of the Management Board and Member of the Management Board shall inform the Board of Directors, and refrain from voting on the relevant issues. The Chairman and Members of the Management Board are required to disclose information on the ownership of the Company's securities, as well as their sale (disposal) and/or acquisition in accordance with the laws of the Russian Federation.

The Company's shareholders are entitled to manage the supreme governance body or provide recommendations through the following mechanisms:

1. Nominating a representative to the Board of Directors, a Committee of the Board of Directors, the Audit Commission;

2. Making proposals for the agenda of the General Meeting of Shareholders;

3. Summoning an extraordinary General Meeting of Shareholders;

4. Direct voting at the General Meeting of Shareholders;

5. Requesting for information on the Company's operations.

In 2012, the Company's Board of Directors approved a new version of the Regulations on the Internal Control System, according to which the Board of Directors shall take the following measures to supervise how the company assesses its economic, environmental and social efficiency:

1. Initiate audits of the Company's operations via the Chairman of the Management Board;

2. Consider and make decisions on the internal control procedure reports submitted by Chairman of the Management Board or the Audit Committee of the Board of Directors;

3. Review the results of the internal control (opinions of the Company's Audit Commission and other materials from the Company's departments authorized to carry out independent efficiency checking of the financial and economic activity and control procedures);

4. Regularly assess the effectiveness of internal control system and continuously improve internal control procedures.

Top Executives' KPIs

Payments to the members of top executives are made on the basis of the approved organizational and administrative documents of the Company (are developed by the HR and Remuneration Committee of the Board of Directors) and imply that the top executives have met key performance indicators (KPIs).

In 2012, the following KPIs were applied (Annex № 1 (extract) to the Minutes of the Board of Directors meeting (№ 166 dated 28.06.2012):

Semi-annual KPIs:

— relative number of restrictions on electricity transmission services (%);

— no fatal accidents or group accidents, if there is a casualty that results in a serious injury to an individual;

— financial stability indicator, i.e. the financial leverage ratio;

— meeting schedules for funding and developing the investment program with progressive totals up from the beginning of the year (in %).

Annual KPIs:

— cost reduction for the acquisition of goods (work, services) per unit of output of not less than 10% per year within three years in real terms;

— EBITDA, RUR million;

— efficient implementation of the Cost Management Program (CMP),%;

— No major emergencies;

— electric energy losses in the grid used by Federal Grid Company to provide electricity transmission services (in %);

— meeting schedules bringing on line power facilities and implementing plans for financing and development (in %).

The approved target semi-annual and annual KPIs for the Company's top executives in 2012 have been achieved in full.

External Quality Ratings of Corporate Governance and Information Transparency

The Russian Institute of Directors (RID) completed an independent analysis of the main components of the Company's corporate governance system: the rights of shareholders, the activities of the management and control bodies, information disclosure and corporate social responsibility.

RID experts assigned to the Company a score of "7+" on the national corporate governance scale, which corresponds to a "Developed Corporate Governance Practice".

The score of "7+" on the national corporate governance scale is assigned to companies which comply with the requirements of Russian legislation in the field of corporate governance, follow the greater part of the Russian Code of Corporate Conduct and certain recommendations of the international best practice of corporate governance.

According to experts, this score informs the owners of a fairly low risks of losses related to the quality of corporate governance.

Furthermore, the Company ranked fifth in the information transparency ranking of Russian companies, which was compiled by the Agency for Political and Economic Communications.

According to the experts, based on the survey of which the ranking was made, Federal Grid Company pays great attention to the development of information policy and strictly complies with the requirements of current legislation on information disclosure.

Internal Control System

Federal Grid Company of Unified Energy System

Objectives of the internal control system

The Internal Control System (ICS) was formed in 2008. Its main goals are improving the Company's performance and reliability of the financial statements of the Company, strengthening investor confidence in the Company and its management bodies, preserving assets and the efficient use of the Company's resources.

On August 2, 2012, the Company's Board of Directors approved new Regulations on the Internal Control System. Particular attention is focused on the preventive control of the Company's activities by means of risk management. This task is performed by means of early identification, assessment and management of risks that threaten the Company's business operations and reputation, the health of workers, the environment and property interests of shareholders and investors.

Currently, the internal control system provides:

— compliance with applicable laws and internal policies, regulations and procedures of the Company;

— achievement of the strategic goals of development, the implementation of financial and business plans;

— prevention, timely detection of and response to threats to the Company's activities;

— Prevention, detection and elimination of violations when business transactions are carried out;

— completeness, reliability, usability and reliability of the Company's financial, accounting and management information and reporting.

Internal Control Principles

— system approach;
— timeliness;
— unity;
— continuity;
— separation of powers;
— documentation of procedures;
— documentation of results;
— feasibility;
— interaction;
— development.

The principles of internal control disclosed in the 2011 Report have not changed and the Company continues to follow them.

The Structure of the Internal Control System's Bodies and Communications

The internal control system's participants are:

— Board of Directors;

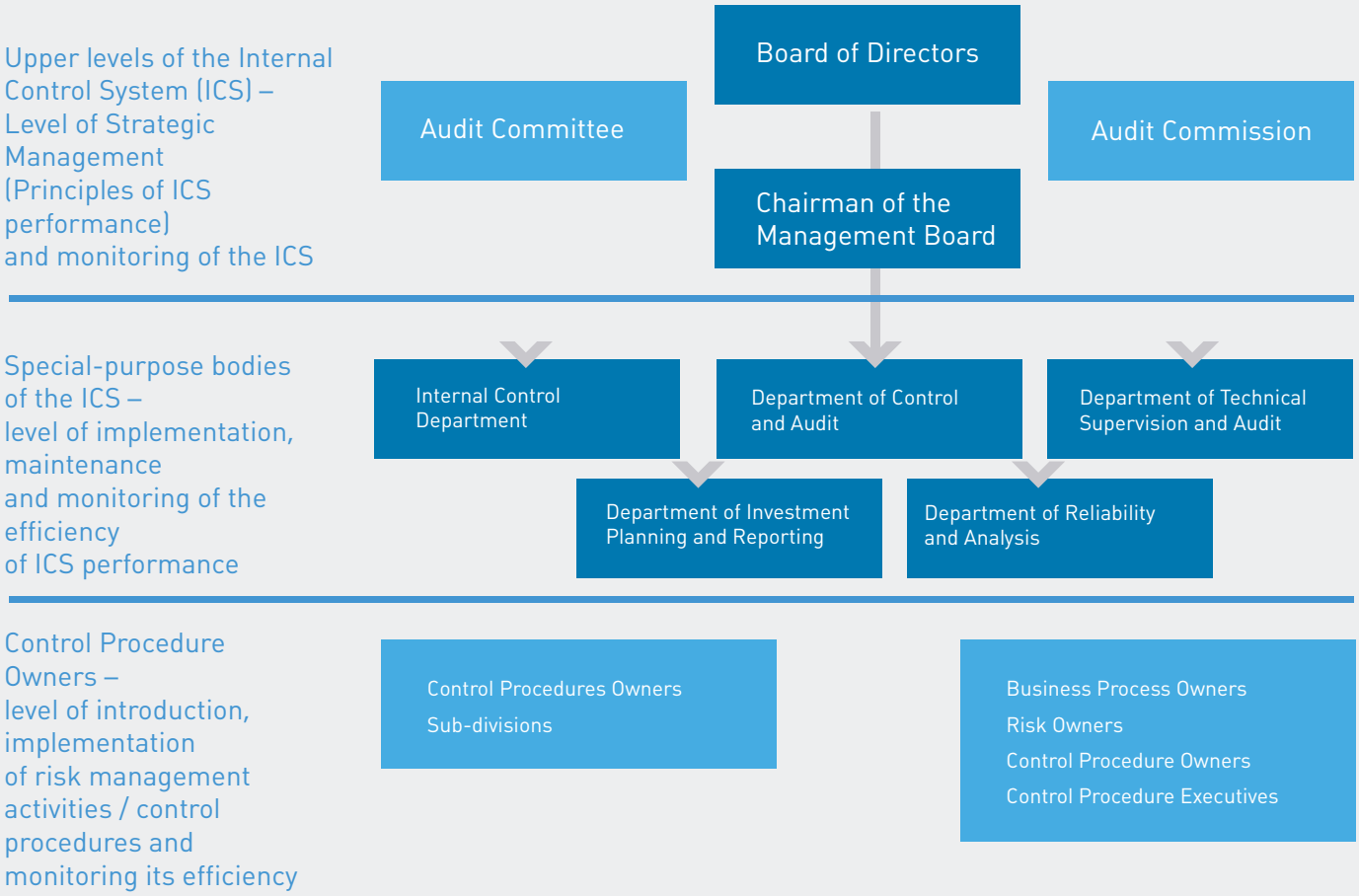
— Audit Commission;

— Audit Committee of the Board of Directors;

— Chairman of the Management Board;

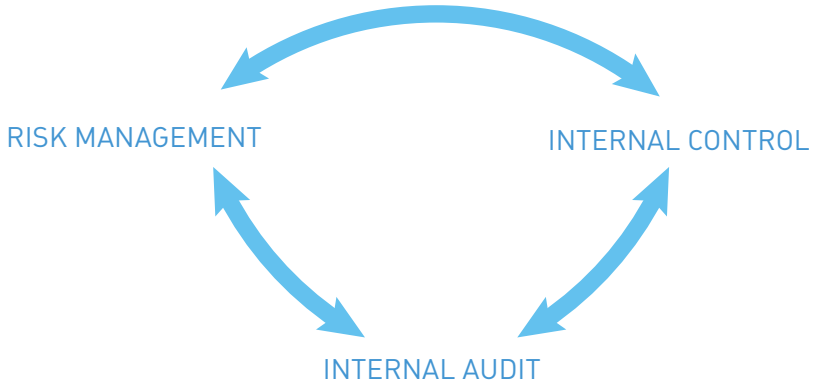
— special-purpose bodies of the internal control system;

— the Company's Internal Units



Further information about the functions of the internal control system bodies is presented in the 2012 Annual Report of Federal Grid Company.

The effectiveness of the internal control system is provided by the interrelation of the three constituents of management processes:



The Company widely uses the practice of conducting comprehensive inspections of its branches and SDCs, in which, along with the specialized control bodies, other departments of Federal Grid Company are involved.

In 2012, specialized control bodies performed inspections in all Federal Grid Company's branches – Backbone Electric Grids (MES). 21 SDCs of Federal Grid Company were audited.

Subjects of inspections:

— internal audit of business processes;

— technical audit (complex and target audits);

— audit of financial and operating activities;

— audit of facilities' preparedness to operate in autumn-winter period and in special conditions;

— internal complex and target audits (including investment projects implementation, fulfillment of budgets, programs and plans, execution of agreements etc.).

Based on the inspection results, measures are being taken promptly and in full to address the revealed violations, shortcomings, deviations, with a subsequent control over the implementation of all planned activities.

2013 Plans to Improve the Internal Control

Following the adoption of the revised Regulations on the Internal Control System, development priorities are: implementing standardized approaches to the realization of internal control functions in the branches, updating the similar regulations in subsidiaries and dependent companies, introducing IT-solutions in the area of internal control.

In the first half of 2013, the Company plans to adopt the Strategy of Internal Control System Improvement, which will be implemented in 2013-2014.

The Strategy defines the main goals and directions of development of the internal control system and risk management at all levels (in the head office, branches and SDCs) and in all processes (areas of activities) of the Company.

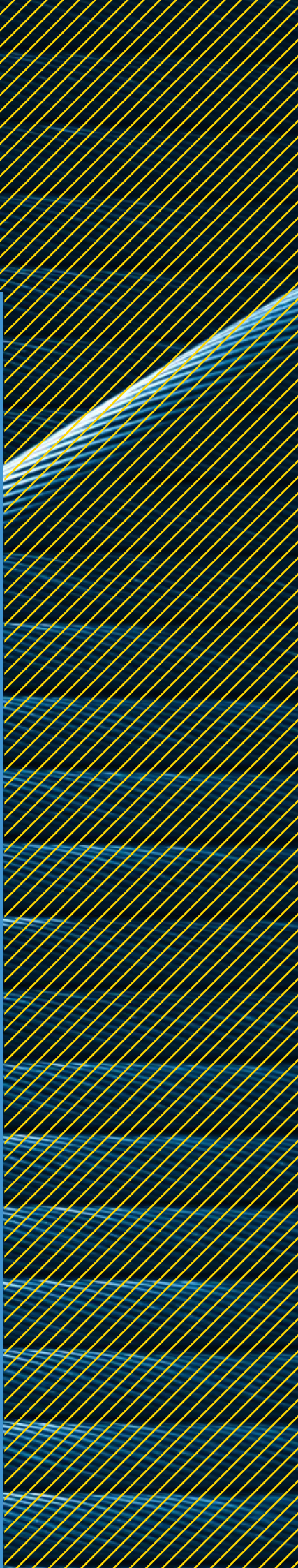
The following are key objectives of upgrading the Internal Control System:

— integrating the Internal Control System and risk management into a single management system for the prevention, timely detection and prompt responses to risks and threats;

— building effective working business processes unified throughout the entire command chain, including the minimum necessary control procedures, which are developed considering implementation costs and its effectiveness;

— introducing a risk-oriented internal audit, also stipulating the planning of inspection procedures based on risk assessment – to focus on the most vulnerable facilities and activity sectors.

The Risk Management System



Federal Grid Company of Unified Energy System

The Company has implemented a risk management system, which is regulated by the organizational and administrative documents of two levels:

— the Company's Risk Management Policy (specifies the requirements, principles and approaches to risk management system);

— a Procedure for the Application of the Company's Risk Management System (regulates the procedures for the functioning of the risk management system, techniques to identify and assess risks, the procedure for reporting on risks and risk response procedures).

The risk management system is 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 participants of the risk management system:

— Board of Directors;

— Management Board;

— Deputies Chairman of the Management Board (Heads of Units), Directors;

— Structural Departments Managers;

— Internal Control Division.

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.

3. Risk Response Methods

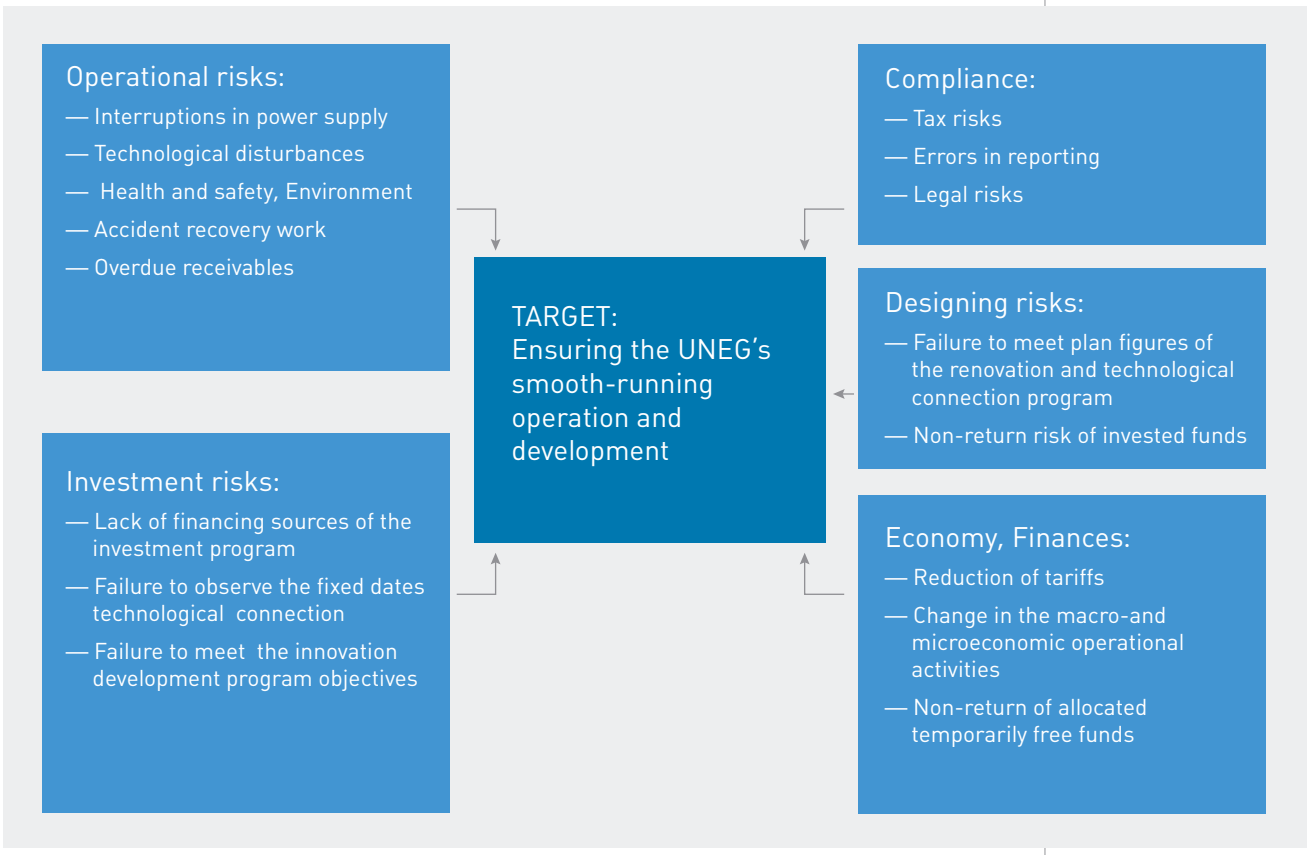
Response to risks is carried out by implementing one of the types of strategy: risk taking, minimizing risk consequences, transferring risk to a third party, avoiding risk and other combined actions. The choice of strategy is approved by the Management Board of Federal Grid Company.

4. Procedures and terms for the submission of risk reports

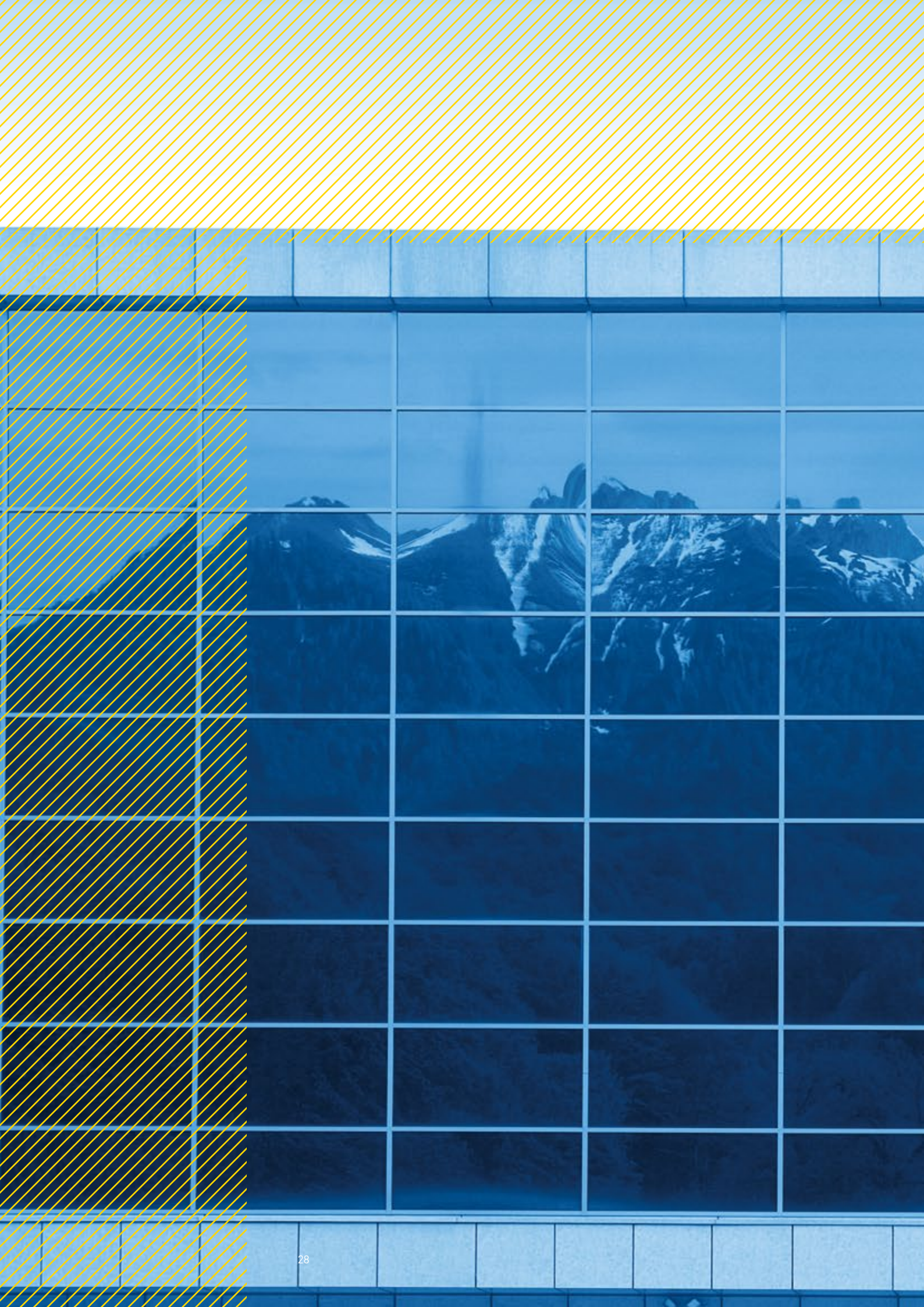
The Internal Control Division systematizes quarterly risk reports. Based on the adjusted reports, the Company prepares the Risk Matrix and the Risk Minimization Actions Summary. These documents are subject to the approval of the Company's Management Board.

After collection and evaluation of risk reports, we systematize information about potential events that have a negative impact on the achievement of the Company's objectives, the degree of their importance and the actions to eliminate or minimize them.

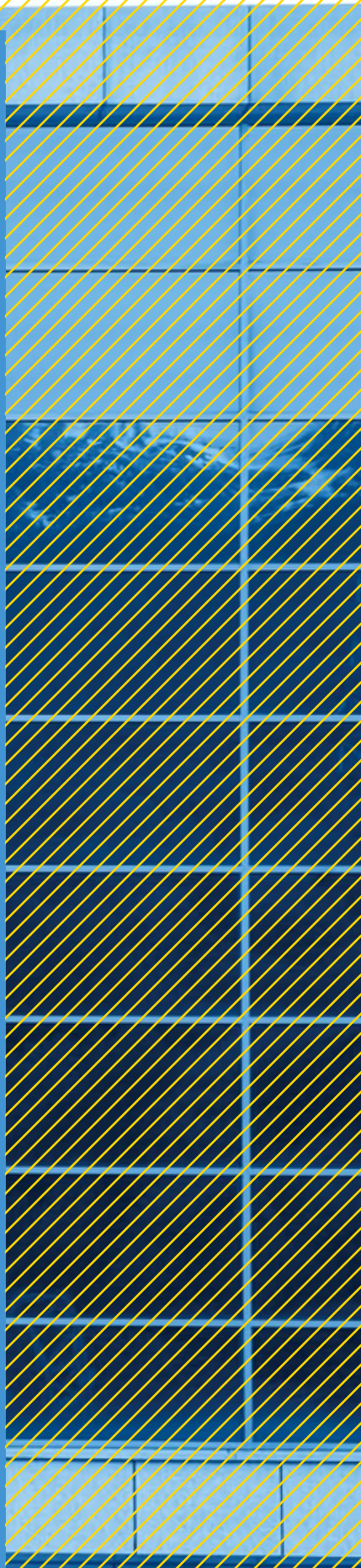
Risk grouping



More detailed information about risk management is presented in the Company's 2012 Annual Report.



Understanding of Corporate Social Responsibility and Sustainable Development



Federal Grid Company of Unified Energy System

Traditional understanding of sustainable development is associated with the desire to meet the needs of the present generation without threating the future generations' needs, which can only be done taking into consideration the positions of the parties concerned constantly interacting with them and integrating this practice into all business processes of the company.

Federal Grid Company agrees to this understanding and is forced (because of its special role in the energy industry, economy and social development of the country) to significantly supplement and define more exactly this understanding. This section also provides an up-to-date version of the public agenda in the area of sustainable development, as well as a retrospective of the development of the Company's non-financial reporting and 2012 main events significant in the context of CSR and sustainable development.

The Basic Ideas of the Company Responsibility

The Unified National Electric Grid (UNEG) is a state-controlled public infrastructure that has a strategic importance for Russia, for the economic and social stability, to ensure the integrity of the country.

Being a sole operator company, Federal Grid Company provides electricity transmission through the backbone electric grids and is responsible for the reliability of power supply to customers throughout the Russian Federation.

Federal Grid Company is intended to ensure faster growth of the country's backbone grid infrastructure in order to meet the growing needs of society and the economy in the future.

Federal Grid Company's responsibility for the efficient management and development of the UNEG is associated not only with the safe, reliable and uninterrupted power supply, but also with the establishment of non-discriminatory access to the Company's grid services, which should be provided transparently, honestly (with no corruption), and on the innovation basis. Therefore, one of the most important tasks for the Company in terms of ideology and values of corporate social responsibility and sustainable development is to search for balance in the implementation of social and economic interests in the Company's activities.

Federal Grid Company's corporate social responsibility is the practice of responsible conduct of business and the form of the Company's organization, which arises in response to the public agenda in the area of sustainable development.

The agenda in the area of sustainable development is formed and updated in the regular interaction of the Company with the parties concerned – stakeholders, with those who publicly and responsibly defend in the dialogue with the Company the socio-meaningful interests of the of the Russian civil society. It is the existence of stakeholders - genuine social partners of the Company – that makes the CSR practice a real transformative power and long-term priority of the next decade of Federal Grid Company's life.

Public Agenda for Sustainable Development

As one of the largest energy companies in Russia, Federal Grid Company is responsible for the state of UNEG, the core of the country's power grid, a vital public infrastructure. After evaluating the existing problems and potential threats, the Company has developed and launched a set of programs aimed at the renovation, modernization and innovative development of UNEG.

These programs are of a long and complex nature, and their success depends largely on the Company's constructive interaction with a wide range of stakeholders. In particular, with suppliers, contractors, project and research organizations, distribution grid companies and IDGC, consumers, generators and infrastructure and regulatory organizations, trade unions, state and local authorities, non-governmental environmental organizations and expert community.

The analysis of a wide range of panel discussions that have been taking place in the past few years in Russia and abroad on the development of electric grids and sustainable development, as well as the results of the dialogue with the Company's stakeholders allow us to formulate a number of relevant topics and problem contexts of social agenda in the area of sustainable development.

Creating mechanisms and practices to synchronize the stakeholders' plans, suggesting the development and expansion of the Russian UNEG

For a complete and balanced development of the country, some regions of the Russian Federation, the industrial business, it is necessary to synchronize plans and coordinate the efforts of all UNEG members, including development programs of distribution grid companies, plans for the development of cities and regions, the development strategies of major consumers, the governmental plans for the development of various industries. This suggests a harmonization of planning horizons and the strategizing of all participants of the Russian UNEG, so that the pace of development of some entities does not make an obstacle (ballast) to the realization of other entities' programs and projects.

Import substitution for the purpose of innovative development of domestic power industry

Innovative development of the country's power industry needs to be carried out together with the development of national science and technology and engineering base of the industry. This will allow Russia to take a leadership position in the global technology market. Activities aimed at consistent decline in the share of imported equipment, including through stimulating the development of new engineering and design solutions and forming long-term sustainable relationships with the Russian power equipment manufacturers that are able to set up the production of innovative equipment and ensure the necessary level of its quality and performance, shall be carried out to achieve the same objective.

Creating a personnel reserve of "smart" energy industry

The transition to a new technology platform of power sector suggests a major change in the skills and qualifications of future electrical engineers. These changes cannot be made simultaneously, and the personnel market of the country cannot meet this need currently. This means that we should successively deploy personnel and educational programs for the chosen direction of the industry. It is necessary to form proper staffing and educational infrastructure for our own needs. In addition, the Company require full-scale youth programs that involve young personnel in the context of the Company's work at the earliest stages of their professional careers, as well as create the life and career prospects for young employees in the future (including the issues relating to housing provision).

Creating a responsible personnel management practice

Increased labor productivity and changes in the structure of staff employment in the energy industry in the implementation of innovative solutions suggest a change in the quantity and quality of human resources. To create a responsible personnel management practice, it is necessary to prepare a variety of adaptation and professional reorientation programs for released staff. It is also important to continue to exercise increased care for veterans and former Company's employees who retired, as this approach also forms the Company's attractiveness as an employer.

Improving labor safety and increasing operational safety

Life, health and working capacity of employees are the highest value and the area of heightened attention and systematic efforts of the Company. Labor safety requires constant work and constant supervision. The most important task is to reduce the number of injuries in the workplace, improve occupational safety and health protection, and implement everywhere corporate "safety culture".

Ecologization and improvement of energy efficiency of electric grid activities

Upgrading and improving the reliability, safety of electrical grids and forming a new grid architecture that provides a low level of losses in the power system, boosting electricity generation from renewable energy sources, promoting the transfer of urban transport to the electric motors or hybrid technologies - all this creates a background for economical use of hydrocarbon fuels, and as a result, reduces the CO2 emissions. In addition, this activity should also be supplemented by massive use of environmentally-benign practices of laying power transmission lines and maintaining forests, minimizing electromagnetic impact of power transmission lines on the environment.

Fair distribution of the created economic costs and economic feasibility assessment of innovation and new technologies implementation

Implementation of the Innovative Development Program requires considerable funds, the source of which is the investment component of the tariff for electricity transmission, borrowings, as well as various allocated funds from the Russian Federation budget. Responsibility for the efficient use of these funds shall be implemented through transparent spending and clear methodology of economic assessment of costs practicality. It is also important to manage costs and make fair distribution of the created value when implementing innovations and new technologies throughout the whole value creation chain.

Integration of corporate social responsibility strategy into internal business processes

International initiatives in sustainable development suggest that the CSR strategy will be integrated into the internal business processes of the company management. This means that the strategic attitudes, efficiency targets, regulation and organization of business processes must take into account the context of sustainable development and the need for systematic interaction with stakeholders. Typically, this is achieved through the formation of a management structure to deal with the CSR management, and the organization of the specialized structural unit.

The Formation of Non-financial Reporting in Federal Grid Company

Understanding the Company's contribution to sustainable development began to be formed owing to participation in RAO UES of Russia's initiative to introduce non-financial reporting in the power industry in 2006-2008.

In 2007, the Company for the first time prepared a chapter "Corporate and Social Responsibility" in its 2006 Annual Report.

As early as in 2008, after finalizing the Company's target structure, the first full-fledged non-financial 2007 Federal Grid Company Report was published. It became a launch attempt to describe the Company's activities in terms of its impact on various aspects of the country and society's life. At that time, as the main tool for managing CSR, the Company defined its Public position regarding CSR, i.e. it formulated the principles of decision-making and the Company's actions when interacting with stakeholders, and elaborated on its responsibility to various stakeholder groups. Then, the Company made a gradual transition from a fundamental and generalized understanding of its corporate social responsibility to the management of specific aspects of sustainable development, which are meaningful to stakeholders.

The Company all along has released its annual non-financial reports in accordance with international standards and "best practices", kept a dialogue with stakeholders and steadily increased the level of reporting, and the breadth and depth of its performance disclosure.

2007

Chapter "Corporate and Social Responsibility" in the 2006 Annual Report. This chapter defines a task to develop the CSR and non-financial reporting management practices, and an obligation to release in 2008 a full-fledged non-financial report.

2008

First 2007 Report on Corporate Sustainability and Social Responsibility: in accordance with the GRI guidelines (G3, "C +" level of application) and AA1000SES standard.

Dialogues on the topics:
— Federal Grid Company's strategy of interactions with the investment community: stakeholders' requests;

— Communications with regional authorities when grid companies' investment plans are coordinated: status and prospects of development;

Public hearing of the Report.

2009

Second 2008 Report on Corporate Sustainability and Social Responsibility: in accordance with the GRI guidelines (G3 and industrial supplement, "C +" level of application) and AA1000SES standard.

Dialogue on the topics: The implementation of the Company's Environmental Policy and a reflection of this process in the Report.

Public hearing of the Report.

2010

Third 2009 Report on Corporate Sustainability and Social Responsibility: in accordance with the GRI guidelines (G3 and industrial supplement, "B" level of application) and AA1000SES standard.

Dialogues on the topics: Disclosure of information about the Company's activities aimed at ensuring and managing the UNEG performance reliability.

Public hearing of the Report (absentee consultations).

2011

Fourth 2010 Report on Corporate Sustainability and Social Responsibility: in accordance with the GRI guidelines (G3 and industrial supplement, "B+" level of application), Basic figures of Russian Union of Industrialists and Entrepreneurs' performance, and AA1000SES standard.

Dialogues on the topics: Federal Grid Company's Innovative Development Program in the context of sustainable development.

Public assurance by the Russian Union of Industrialists and Entrepreneurs' Council for Non-Financial Statements.

2012

Fifth 2011 Report on Corporate Sustainability and Social Responsibility: in accordance with the GRI guidelines (G 3.1 and industrial supplement, "B+" level of application), and AA1000SES and AA1000AS standards, public assurance.

Dialogues on the topics:

Federal Grid Company's Youth Policy: young professional training, recruitment, development and motivation system;

The formation of Federal Grid Company's 2010-2012 Anti-Corruption Policy;

Public hearing of the Report.

2013

Sixth 2012 Report on Corporate Sustainability and Social Responsibility: in accordance with the GRI guidelines (G 3.1 and industrial supplement, "B+" level of application), and AA1000SES standard, professional non-financial audit, public assurance.

Dialogues on the topics:

- Human Capital Management in Federal Grid Company;
- Environmental impact of Federal Grid Company: management, efficiency, plans.

Public hearing of the Report;

Professional non-financial audit, public assurance of the Report.

CSR and Sustainable Development: 2012 Key Events

On 26 February 2012,
the opening ceremony of the playground in the village Sanamer, Predgorniy District, the Stavropol Region, took place. The playground was constructed with the Company's participation.

On 21 March 2012,
Federal Grid Company, with the assistance of the National Research University of Moscow Power Engineering Institute, held the second annual contest for the best scientific work in the electric power industry among undergraduates and graduate students from specialized higher education institutions.

On 18 April 2012,
in Moscow at the National Research University of Moscow Energy Institute, the Company organized an All-Russian Conference entitled "New Generation for the New Power Industry". The Conference was attended by managers of higher and secondary occupational education institutions from across Russia.

In May 2012,
Federal Grid Company was named one of the leaders in the implementation of anti-corruption policy among the power industry enterprises of the Russian Federation (the award ceremony was held in the framework of the Second St. Petersburg International Legal Forum, organized by the Ministry of Justice of the Russian Federation with the support of the President of the Russian Federation).

From 1 June to June 23 2012,
in St. Petersburg, Federal Grid Company organized an action "Study Power Engineering".

On 25 June 2012,
the Company celebrated its tenth anniversary. On 25 June 2002, an official state registration of Joint Stock Company Federal Grid Company of Unified Energy System (Federal Grid Company) took place.

In August 2012,
Federal Grid Company placed fifth in the information transparency ranking of Russian companies, which was compiled by the Agency for Political and Economic Communications (APEC).

On 12 September 2012,
Federal Grid Company put in force the Anti-Corruption Policy approved by the Company's Board of Directors. The document defines the Company's main objectives, principles and areas of activities in the field of fighting corruption.

On 19 October 2012,

the Personnel Training Center of Federal Grid Company's branch – MES North-West, won "The Green Office: up to 2 thousand square meters" category at the Green Awards Contest (All-Russian Environmental Development and Energy Efficiency Contest).

On 25 October 2012,

the Ministry of Energy of the Russian Federation awarded a diploma to Federal Grid Company for its contribution to the development of social policy in the power industry.

On 16 November 2012,

the Company's Social Responsibility and Sustainability Report was recognized as the best social report at the XV Annual Yearly Reports Contest of JSC Moscow Stock Exchange.

On 10 December 2012,

Federal Grid Company was assigned a score of "7+" on the national corporate governance scale, based on an independent analysis made by Russian Institute of Directors.

On 12 December 2012,

Federal Grid Company was assigned a "High Transparency" score by the National Procurement Transparency Rating 2012.

On 20 December 2012,

in Khvalynsk, the Saratov Region, the grand opening of the new kindergarten "Svetlyachok" took place. The kindergarten was built with the participation of Federal Grid Company.

In December 2012,

the Company's management, on behalf of the Management Board of the Company, finalized the development and approved the application from 01.01.2013 of new evaluation criteria that provide for reduction in preference of applications made by participants of procurement procedures, the beneficiaries of which are registered in the offshore zones.

Human Resources Management

Federal Grid Company of Unified Energy System

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:

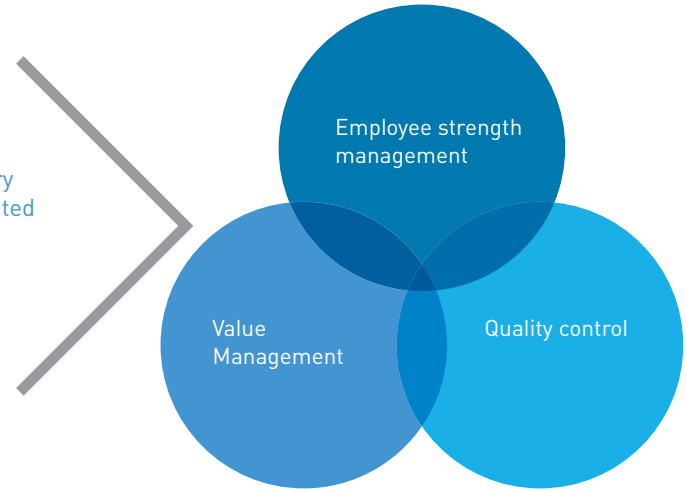
— providing staff of qualifications required in the right places and in the right quantity;

— 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
— 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
— 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
— 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
— 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
— 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
— 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
— 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

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.

4,800

THE NEED OF FEDERAL GRID COMPANY IN NEW EMPLOYEES

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.

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 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.

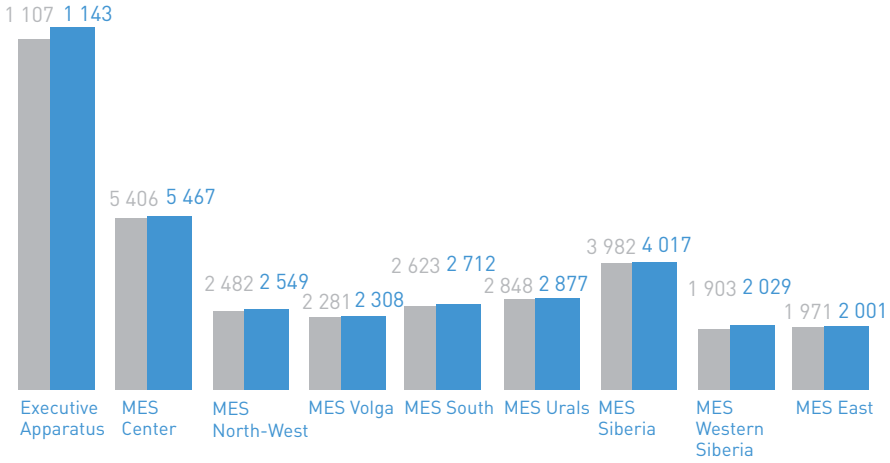
The Company's target HR priorities include the enhancements in controlling the employee average age and the HR turnover level, while developing new tools to attract and motivate the personnel and switching over to long-term employee demand planning.

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

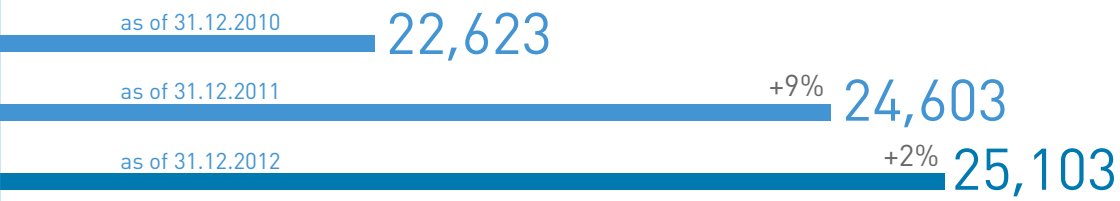
Average headcount of Federal Grid Company as of 31 December 2012 was 25,103 persons. Employee number growth in 2012 by 2% compared to 2011 is due to the creation of new jobs at the power facilities of the Sochi Region, constructed for reliable power supply to the 2014 Olympic Games, and other newly introduced 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



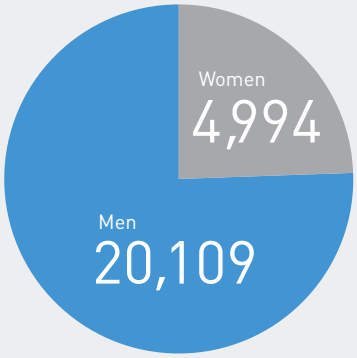
Total Headcount by Employment Type and Region

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, %

Average age, years

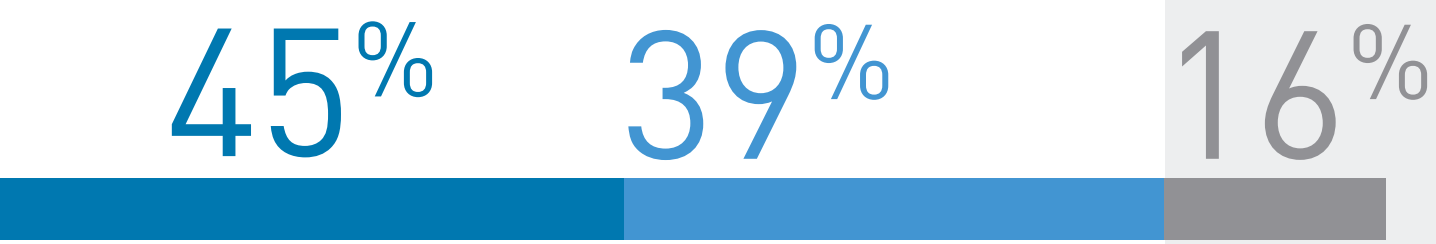
38.8

Main Indicators of Staff Quality

In total

Men — Women

The Company Personnel Structure



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 and in strict accordance with the Russian legislation.

Professionals

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

Managers

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

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

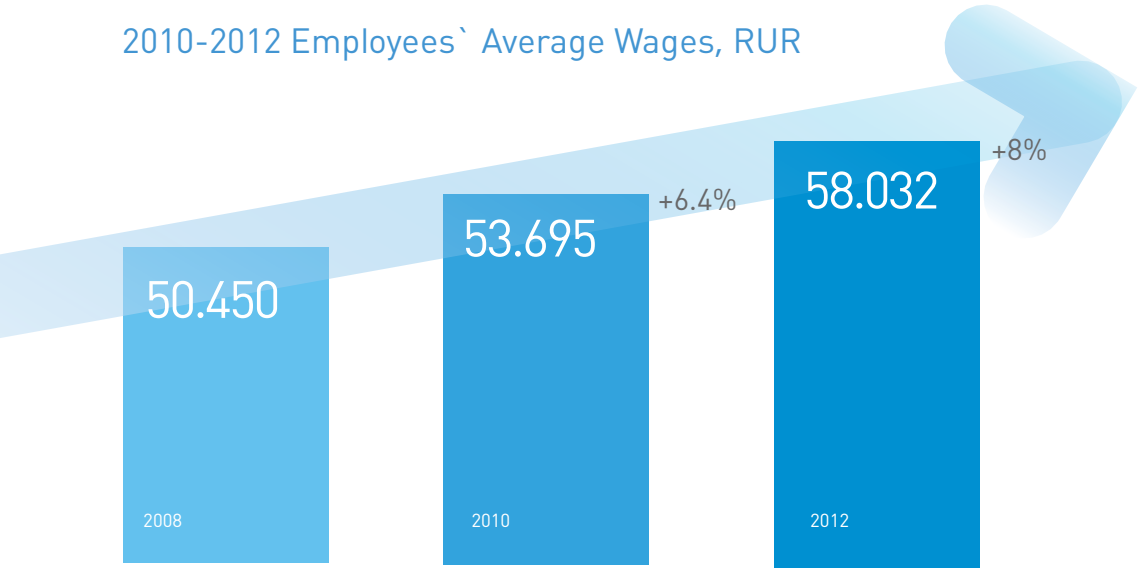
One of the most important factors to achieve strategic and current corporate objectives is a well-formed employee motivation model. The remuneration system in Federal Grid Company includes the categories of positions, performance of branches and structural divisions, characteristics of regional labor 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 ragular basis. Studies` results indicate that the level of wages in Federal Grid Company corresponds to the average segment of the labor market.

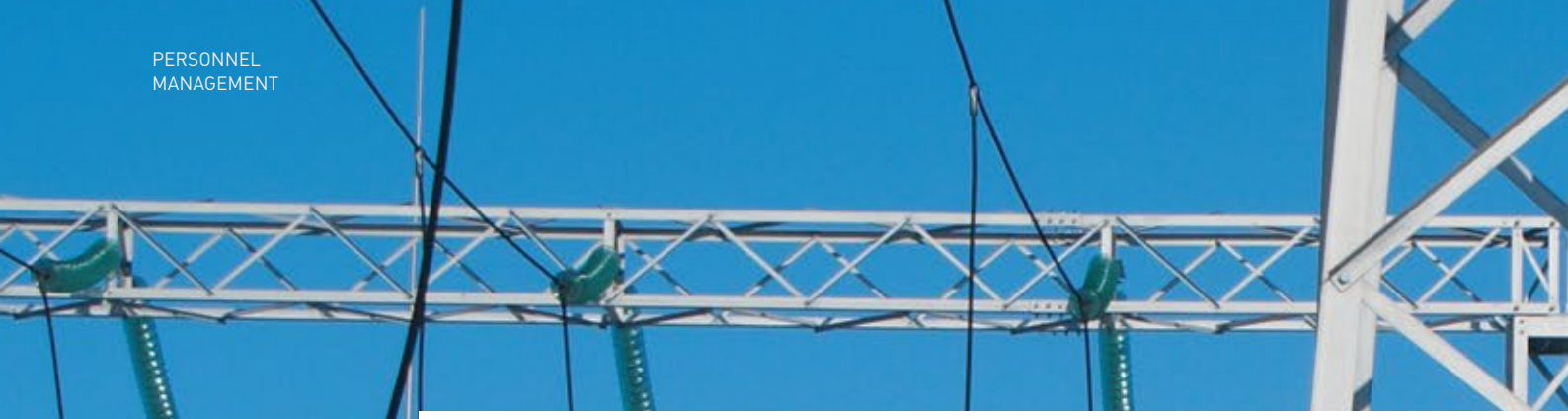
To maintain and increase achieved level of financial motivation, ajustment of salaries (base salary) of employees for the ammount of the actual increase in the CPI (Consumer Prise Index) in the Russian Federation is carried out quarterly in the Company`s branches.
It ensures stable wage increases.

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 personel 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 exeeding 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.

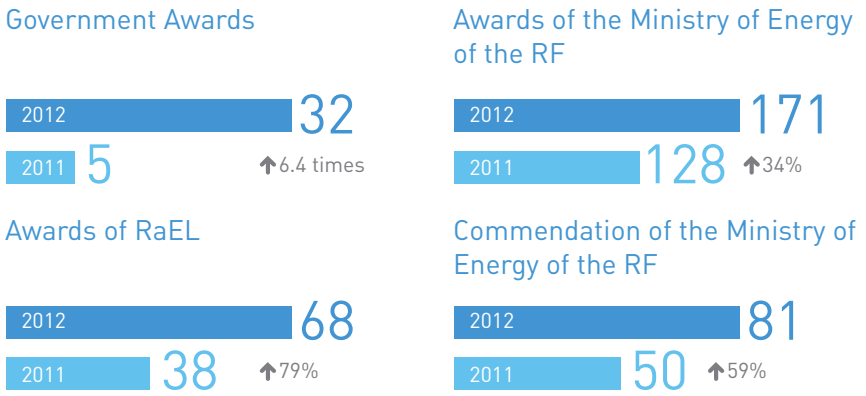
In 2012, on the recommendation of Federal Grid Company 4,585 employees were awarded. For merits for the electric power industry 171 employees were awarded by the Ministry of Energy of the Russian Federation,

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.

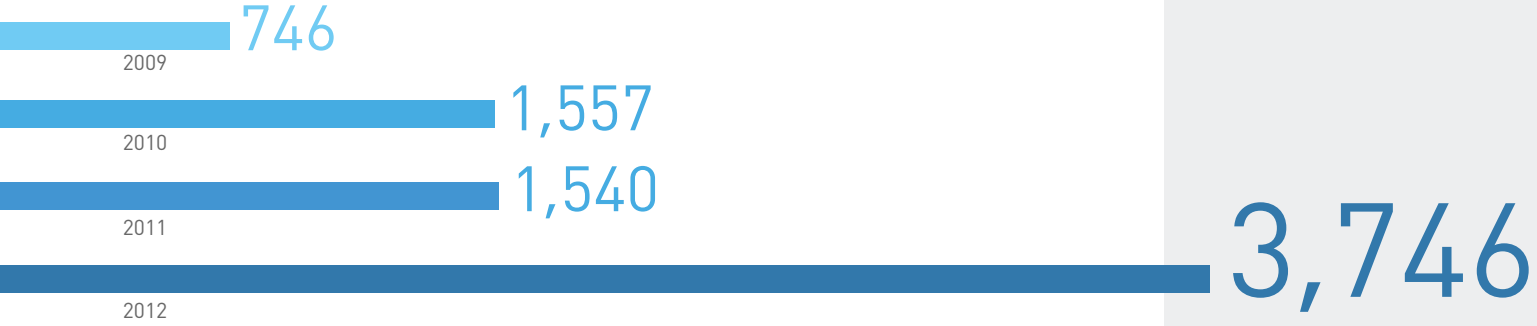
In 2012, the Company celebrated its 10th anniversary. Merits of employees with whom the Company shares its success to enhance the reliability of electric power supply, upgrade power grid and introduce innovative technologies were awarded by corporate awards of Federal Grid Company: 2,124 employees were 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



Corporate Awards of Federal Grid Company

Federal Grid Company`s Employees` Awards



Attracting and Developing Young Professionals

The UNEG's innovative development, efficiency increase, the provisions for the reliable supply of electric power, the commissioning of new up-to-date substations and power transmission lines to a considerable extent depend on the timely provision of qualified, motivated and loyal personnel for the Company.
The Company's competitive advantage on the labor market is achieved through continuous development of its personnel, the formation of HR reserve, the investments in the adaptation and development of young specialists, the improvement of the employees' housing conditions, and the implementation of a number of social programs.
The Company's considerable efforts to implement the above initiative have already resulted in a decrease of the Company's personnel turnover, an increase in the number of young and promising specialists, and the lowering of the employees' average age. In the end of 2012 over 50% of the Company staff was composed of employees under 40 years.
During 2012 the Company actively interacted with senior high school students and the students of the industry-specific higher education institutions by establishing additional scholarship programs for occupations most urgent for the Company, and trying to attract the employees to some geographically remote locations. In 2012 the Company's targeted scholarships were granted to 86 students. Over 3000 students from partner institutions attended the days of open doors and tours of duty hosted by the Company branches. Seven hundred and forty five students from 28 higher education and 3 secondary education institutions worked at 41 Company facilities under construction in the summer of 2012 (twice as many, compared to 2011).
The two recent years were marked by the Company efforts to provide quality housing for its employees. The provision of paid-for housing allows the Company to attract highly qualified specialists to the remote UNEG facilities under construction. In 2012 the Company established a paid-for housing fund composed of 622 apartments in 12 regions of the country. The Company employees who purchase the housing using borrowed funds may turn to the Company to obtain compensations and loans. Throughout 2012 the compensations and loans were granted to 386 employees, including 141 young specialists.
The 2013 priorities of the Company's Youth Policy are associated with further development of the initiatives pertaining to the attraction of young specialists to the formation of students' construction brigades. The Company is also going to encourage the students' research activities in the sphere of innovative development of the power industry. The Company's 2013-2014 plans in regard of its housing policy include additional 1500 apartments with the total area of 81 000 square meters in 47 regions of Russia, to complement the paid-for housing fund.

Natalia Ozhegina, Deputy Chairwoman of the Management Board.

Youth Policy of Federal Grid Company

Federal Grid Company adopted an integrated approach to working with the young staff, attracting and retaining young professionals. The main areas of work were formulated in the Youth Policy of Federal Grid Company*. In accordance with this document, the strategic directions of work with youth are:

1. increase the Company`s attractiveness for choosing a future job by students of higher educational institutions and secondary occupational institutions and develop mutually beneficial cooperation with the specialized professional institutions.

2. work socialization and adaptation of young professionals in the corporate environment of Federal Grid Company, promotion of professional development and professional growth of young professionals, formation of an active life position and production initiative.

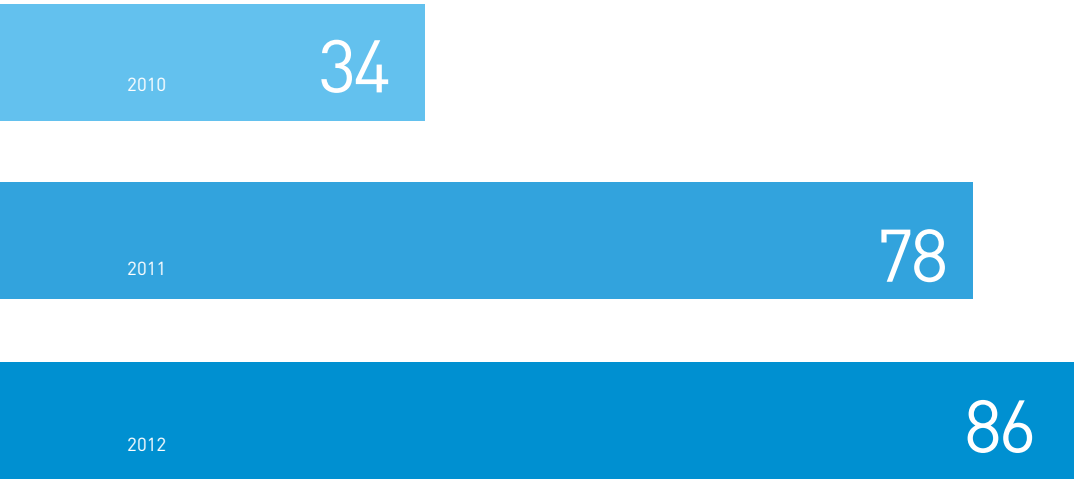
3. popularize power engineer profession; attract the interest of school children to the activity of Federal Grid Company.

Federal Grid Company actively works with senior high school students and students of specialized institutions, establishes additional scholarship program for the most popular professions required by the Company, including the involvement of employees in certain geographically remote regions. The Company conducts traineeship and Doors Open Days at its branches aimed at rapid adaptation of specialists to the conditions and specific of work in Federal Grid Company.

* Approved by Federal Grid Company's Order № 607 dated 07.10.2011.

In 2012, the target scholarship programs of Federal Grid Company involve 86 students of specialized higher educational institutions. Upon completion of training, graduate scholarship holders will be offered jobs in various divisions of Federal Grid Company. In 2012, the Company recruited more than 1,800 young people. In 2013, the cooperation with leading specialized educational institutions aimed at attraction of talented young professionals in Federal Grid Company will continue.

Number of Participants in Scholarship Programs



The implementation of Youth Policy

Measures for the implementation of the Youth Policy is part of the list of internal corporate events approved annually**. In this case, the measures included in the list in terms of youth policy are basic, but not exhaustive.

As part of the implementation of Youth Policy Federal Grid Company continues to cooperate with leading Russian specialized higher educational institutions, actively involved in the improvement of the educational subjects for electric power professions and formation of diploma coursework subjects, attraction of teachers and students to participate in research and practice conferences and various competitions in support of innovation.

In 2012 measures for the implementation of Youth Policy of Federal Grid Company involved more than 4,400 people:

** On the 2012 anniversary year events were approved by Order of Federal Grid Company as of 14.10.2011 No 630 "On Approval of the List of Internal Corporate Events for 2012 and the Events Dedicated to the 10th anniversary of the establishment of Federal Grid Company".

— as part of the Day of Federal Grid Company the Company's branches organized meetings with students in regional higher educational institutions. The total number of participants of partner higher educational institutions in the Day of Federal Grid Company was 1,700 people;

— the Company continued the tradition of student construction teams work at its facilities. In July and August 2012 jobs were created for 745 students (2 times more compared to 2011) from 28 higher educational institutions and three specialized secondary institutions at 41 facilities under construction of Federal Grid Company;

More than 720 higher educational institutions` students underwent practical training at the facilities of Federal Grid Company. For 200 of them temporary jobs for a paid practice were created in the Company`s branches;

— 9 faculty members of higher educational institutions underwent production training at the power facilities of Federal Grid Company;

— from 2 to 11 July in the Dmitrov district, the Moscow Region at the Personnel Training Center "White Rust" of the branch of Federal Grid Company - MES Center students of NRU MPEI and ISPU were trained on the program "School of the Young Engineer" for the third time;

— during the year 13 employees of Federal Grid Company involved in teaching process of higher educational institutions, working in collegiate and consultative management bodies, being a part of the commissions on the defense of theses and the state examinations;

— more than 760 higher educational institutions` students took guided tours to production facilities of Federal Grid Company;

— from April to June, the second contest for the best scientific work of students and post-graduates of specialized higher educational institutions was held on the subject - trunk electric power grids;

— in collaboration with the NRU MPEI the All-Russian contest of manuscripts of educational, scientific, scientific-technical and reference literature for the electric power industry was held for the second time. Based on the results of the contest of 2011 manuscripts 11 educational guidances with edition of 1,000 copies each were published. During the year, these books were sent to the partner higher educational institutions of the Company;

— on June 20 in St. Petersburg the solemn opening of the Center for Professional Development and Retraining of employees of power grid complex took place at the St. Petersburg State Polytechnic University. The Center is equipped and renovated with the support of Federal Grid Company.

— During the year, the Company provide assistance to the North Caucasus Federal University in the modernization of electrical laboratory equipment, as well as to the Grozny State Oil Technical University named after the Academician M.D. Millionschikov in providing the Faculty of secondary vocational education with the necessary equipment;

— from 1 to June 23 in St. Petersburg Federal Grid Company hosted the campaign "Study Power Engineering" and it was coincided to the XVI St. Petersburg International Economic Forum;

— a new form of interaction between Federal Grid Company and the NRU MPEI to attract volunteers from students of the higher educational institution was tested. During the UPGrid 2012 International Electricity Forum "Electric Power Grid Complex. Innovation. Development." 52 students of NRU MPEI provided assistance to the organizers of the event, working as assistants in the exhibition hall and at the participants` reception. Another 8 students were involved in holding the II Open Chess Tournament of Power Engineers in memory of M.M. Botvinnik.

In 2012, the cooperation of Federal Grid Company with specialized secondary educational institutions was continued:

— Energy College building in Kaspiysk was reconstructed; classrooms for 300 students, sports hall and dining hall were updated. There are electrical laboratories equipped with modern equipment and simulators; the necessary educational materials were purchased; computer classrooms were fitted out in the College.

— in 2012 additional specialties of electrician for repair of electric power grids and electrician for maintenance of power plants and grids were introduced in Energy College in Vladivostok opened in collaboration with the Administration of the Primorsk Region and Hyundai Heavy Industries. In 2012-2013 enrollment was 246 people, of whom 88 students were enrolled to specialized energy specialties.

As part of participation of Federal Grid Company in international economic forums youth roundtables were held:

— from 18 to 22 June 2012 in St. Petersburg in the course of participation of Federal Grid Company in the St. Petersburg International Economic Forum in collaboration with MSM Skolkovo a Youth Roundtable "Power Industry Integration: in Search of a New Paradigm. Youth Dimension" was held;

— from 12 to 15 September 2012 in Ulan-Ude as part of the Baikal Economic Forum "New Economy - New Approaches" a Youth Roundtable "Development of Power Industry and Energy Infrastructure as a Factor of Economic Growth of Siberia and the Far East. Youth Dimension" was held.

The main objective to hold round tables is to promote creativity of young people, involve them in research activities of Federal Grid Company and solve future problems in the field of innovative development and modernization of the electric power grid complex.

Plans for the implementation of Youth Policy in 2013

In 2013, Youth Policy will be implemented in accordance with the priorities of Social Policy, staff training and staff development of Federal Grid Company for 2013* and the List of internal corporate events**.

Promising task of Youth Policy for 2013 is qualitative changes in ongoing measures on the basis of the experience gained during 2011-2012.

For example, on the basis of the traditional contest for the best scientific work of students and post-graduates of specialized higher educational institutions, the All-Russian contest of innovative projects and developments in the field of smart energy "Energoproryv" is being organized in 2013.

* Approved by Order of Federal Grid Company and IDGC Holding as of 29.12.2012 No 834/728 "On Approval of the List of Internal Corporate Events for 2012 and the Events Dedicated to the 10th Anniversary of the establishment of Federal Grid Company."

** Approved by Order of Federal Grid Company as of 21.12.2012 No 798 "On Approval of the List of Internal Corporate Events for 2013."

The best students of specialized higher educational institutions will be attracted to participate in the Youth Round Table not only on the basis of recommendations of the educational institutions, but also based on the results of qualifying tests.

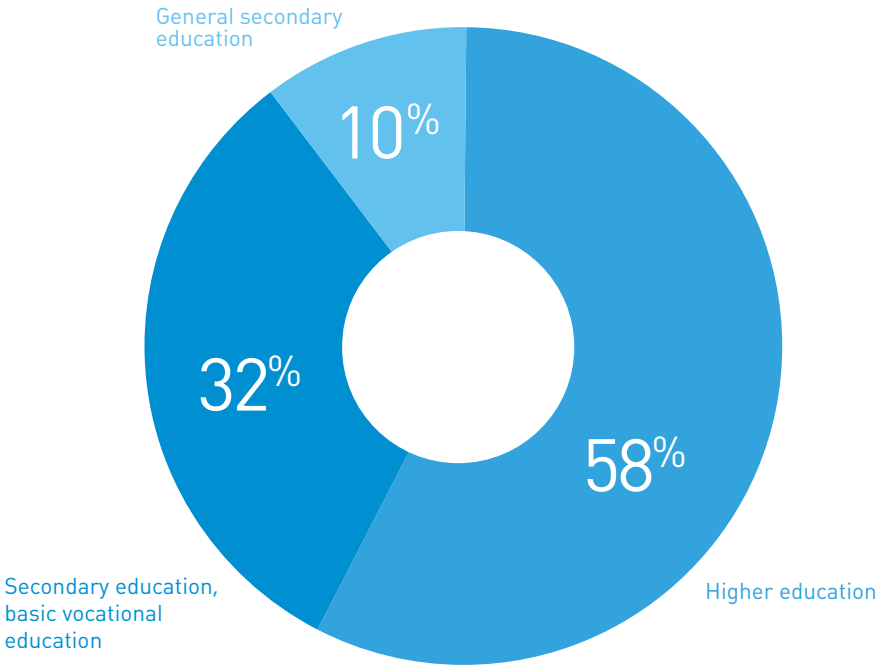
During the summer season of 2013, unlike previous periods, it is planned to attract student construction teams of Federal Grid Company to more qualified, professionally-oriented works for future power engineers.

Staff Training

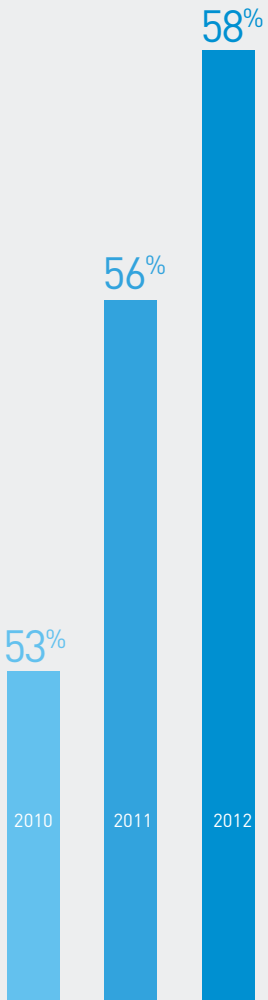
The Company imposes high requirements on the level of education and skills. Major changes in qualitative indicators which characterize the structure of Federal Grid Company`s staff, are associated with an increase in the educational level of employees.

According to the results of 2012, the share of employees with secondary special education was 32%, while the share of employees with higher education increased by 2% to 58%.

Educational Level of Employees



Dynamics of the Share of Employees with Higher Education



Qualified personnel is the Company's fundamental requirement to provide for the reliability of the unified energy system. That is why the Company's HR policy is targeted at the development of a comprehensive system of occupational training for the needs of the Company and for the industry on the whole.

A continuous interaction with the personnel, intended to provide for the preparedness of the Company employees to perform their professional functions, the maintenance and advancement of the personnel qualification is conditioned by the requirements of the federal bylaws and regulations. To comply with these requirements, the Company provides for occupational training using its own personnel training centers and cooperating with external educational establishments, including the training centers owned by subsidiary and dependent companies of JSC Russian Grids.

In 2012 the number of employees engaged in different types of occupational training comprised 11 987, with 9657 of them trained at the Company's training centers equipped with advanced facilities and training sets.

A network of training centers covers all regions of the Company operations. A training center has been built in Sochi to advance the qualification of the personnel engaged in ensuring the reliable supply of power during the test competitions and during the 2014. This center is used to train employees of different categories according to the approved training programs.

The training of the personnel in the Company-owned training centers allows for managing the quality of training of the production personnel in accordance with the Company requirements, as well as for the adjustment of qualification advancement programs and for the development of new and the optimization of the existing programs, optimizing the costs and time resources used during training.

In order to attract the talented and active young specialists to participate in finding solutions for the innovation and modernization of the power grid complex, the Company implements large-scale initiatives, including innovation forums, round tables and training projects for the young specialists.

In accordance with the power grid development strategy, the Company's 2013-2014 priorities include the implementation of a concept for the unified personnel training system targeted at improving the reliability and developing the electric power industry.

We are confident that the training provided by the Company training centers and the training centers owned by JSC Russian Grids will contribute to further growth of the occupational potential of the Company employees to achieve the strategic and tactic goals of the power industry companies, as the training is accomplished on the basis of universal quality standards, using advanced equipment and specialized power grid testing fields, and by experts who know what personnel competencies are lacking.

Training and Further Education

Federal Grid Company seeks to reproduce highly qualified cadres and create human resource capacity which is able to ensure innovative development of the Company. As part of the corporate training system the Company uses effective, high-quality forms and directions for further training and development of personnel.

Yelizaveta Nikolova, Head of the Personnel Training Center

Structure of the Training System

Mandatory, standard training

- requirements of the Federal Laws
- requirements of industry regulations and guidelines

Development of managerial competences

- changes in business processes
- appearance of new tasks
- changes in the external environment

Development of professional competencies

- commissioning of new equipment
- changes in job descriptions in accordance with the requirements of business
- reconstruction of substations
- recruiting new employees
- interaction with higher educational institutions

Innovation and development program

In 2012, 11,987 people were involved in various forms of training and development, an increase by 18% or by 2,176 people compared to 2011.

Percentage of trained production staff was 80% (9,657 people) of total number of trained personnel.

The average number of training hours per employee per year by categories of employees for 2012

Industrial - production personnel

50

hours/person

Administrative and managerial personnel and maintenance personnel

28

hours/person

In 2012 as part of the formation of a single training system for personnel of power grid complex in collaboration with IDGC Holding, the following measures were held:

— more than two thousand employees of Federal Grid Company and IDGC Holding took part in a joint training event in the framework of the "Day of Knowledge" on the theme "Review and Analysis of the Causes of Technological Failures that Occurred through the Fault of the Staff";

— grid-wide emergency response exercise with the participation of staff of Training Center of Federal Grid Company, operational and maintenance personnel of MES Volga, MES Urals, and IDGC Holding was organized and held.

A joint training was held on the following programs:

— "Fire Safety and Labor Protection at Power Grid Plants" as part of the cooperation with TMS of Rostechnadzor;

— "Failures in the work of HV transmission lines caused by the intense icing and gust-and-glaze loadings";

— "Improving procurement system of Federal Grid Company";

— "Organizing the interaction between press services of Federal Grid Company and IDGC Holding and mass media, as well as other target audiences in the process of formation of a unified power grid complex";

— Alignment meeting for managers which are responsible for working with the staff in the branches of Federal Grid Company, SDCs of IDGC Holding;

— "The integration of innovative development programs of Federal Grid Company and IDGC Holding" (in cooperation with the Skolkovo Moscow School of Management).

Managers and professionals of the Company one time every 3-5 years undergo mandatory training on the programs of FCEI "Educational and Methodical Study" of Rostekhnadzor in the following areas:

1. labor protection at power grid enterprises;

2. the rules and regulations of work with electricity generating equipment. The safe conduct of work related to the technical operation and maintenance of electrical and electro-mechanical equipment;

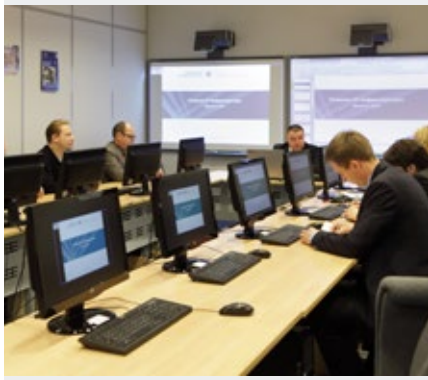
3. fire safety at power grid enterprises;

4. fire-technical minimum at power grid enterprises;

5. power grid construction. Organizing and providing construction and internal technical supervision for domestic power plants;

6. environmental safety of power grid enterprises;

7. industrial safety at power grid enterprises;



In 2012, 750 employees of Federal Grid Company, as well as 1,014 employees of the equipment suppliers and 3,510 persons of outside contractors underwent training on the program of FCEI "Training and methodical study" of Rostekhnadzor.

Personnel Training Centers

Established in 2011 in all regions of operation of Federal Grid Company corporate network of its own personnel training centers (hereinafter - PTC) provided a unified educational space to train production personnel with the use of common standards and training programs.

In 2012 on the basis of PTC, 6,713 people were trained, accounting for 56% of the total number of trained personnel for 2012.

All personnel training centers are provided with simulator complexes designed for the specifics of electric power grids of each branch and maximally simulated the possibility of the operational and information center of operator. In 2013-2014, it is planned to complete construction of educational power grid polygons, equipped with primary equipment of training substations, fragments of power transmission lines (transformer, switches, circuit breakers and poles), microprocessor-based panels of PRA and ECA.

In 2012 in addition to planned emergency response and firefighting exercises in simulation classes of PTC two grid-wide emergency response drills were organized and conducted:

— involving staff of PTC of Federal Grid Company, operational and maintenance personnel of MES Volga, MES Urals, IDGC Holding;

— a large-scale emergency response exercise under the direct supervision of the representative of the Ministry of Energy of the Russian Federation was held in the branch of Federal Grid Company - MES Urals.

On June 20, 2012 Chairman of the Management Board of Federal Grid Company Oleg Budargin took part in the solemn opening ceremony of the Center of Professional Development and Retraining for professionals of power grid complex, created on the base of the St. Petersburg State Polytechnic University (SPU). The Company involved in reconstruction of a three-storey building of the Center with area of 1.5 thousand sq. m. - indoor space is completely renovated and equipped with the latest equipment for practical training on effective power transmission and distribution, relay protection and automation in electric power grids of 110-500 kV, line surge protection and protection lines from the impact of thunderstorms. Each year, more than 1,000 people can be trained and improve their skills in the Center.

Days of Knowledge

In 2012, an educational project "Days of Knowledge", which launched in Federal Grid Company in April 2011, was developed further. The project is aimed at systematic and continuous professional development of employees of Federal Grid Company, ensuring professional mobility of the personnel, adapting new employees, as well as creating a knowledge management system.

Days of Knowledge is a program of internal employee training on various current themes in the form of audio and video conferences, webinars, as well as with the use of remote training technologies, so that the project can be participated by all branches of Federal Grid Company. Both employees of Federal Grid Company which possess the necessary skills and work experience and employees of outside companies act as experts. On the corporate portal of Federal Grid Company, there is a special section where every employee can find information on upcoming classes, read educational materials of held or planned seminars, ask a question or leave feedback for the project organizers and trainers.

In 2012, as part of the "Day of Knowledge" 368 training events were held, which were attended by 10,011 people.

Remote Training

In 2012, the Company continued work on the development of an automated remote training system (hereafter - RTS). The system completed experimental industrial pilot operation, during which proved its relevance among the Company's employees, the ability to improve control of the training quality and retraining of employees, as well as the performance of the reduction of direct and organizational costs for staff training and employee development in the conditions of geographically distributed Company.

In the course of the experimental industrial pilot operation additional requirements to the functionality of RTS were collected. Currently they are under finalization and the preparation to put the system into operation is carried out.

In 2012, the Company's experts tested and prepared for the introduction of RTS courses on the following themes:

— work in ARTS;

— elimination of technological failures;

— introduction to energy industry;

— rules of work with personnel;

— switching in electrical installations.

RTS courses certified by Rostekhnadzor are prepared for mass use for the following programs:

— first aid treatment,

— fire-technical minimum,

— basics of industrial safety,

— occupational safety and health for office employees,

— occupational safety and health for managers and professionals.

To form a plan for further development of training courses, studies of the needs of remote training among employees of Federal Grid Company was organized during 2012.

Improving the competence of the Company`s employees on innovative areas of work

Federal Grid Company uses three basic mechanisms to enhance professional skills and managerial competences of personnel on innovative areas of work:

— Project for services staff training and operation of microprocessor devices of PRA, ECA and APCS of concrete manufacturers. The practice of sending production staff overseas to undertake foreign internships to study the best innovative practices in the field of management and innovative technologies;

— standard programs to improve professional skills and training programs for managerial staff of the branches of MES and PMES in personnel training centers (PTC);

— annual integrated programs, youth roundtables, innovative forums, as well as corporate seminars and trainings for young people and top and mid-level management.

In 2012, as part of the cooperation with the Skolkovo Moscow School of Management the following programs were implemented:

— youth roundtables as part of the St. Petersburg International Economic Forum - 2012 and the Baikal Economic Forum;

— a joint training program "Integration of Innovative Development Programs of Federal Grid Company and IDGC Holding;

— integrated program - a strategic personnel reserve of Federal Grid Company.

Social Programs

Employment benefits are another effective tool that the Company utilizes to increase the Company's social attractiveness and improve employee motivation, including non-material motivation.

ATTRACTION AND RETENTION OF HIGHLY QUALIFIED PERSONNEL

OBJECTIVES	EMPLOYMENT BENEFITS
Motivating personnel for long-term employment	— Pension plan — Support programs for Company veterans — Rewards scheduled for anniversary and retirement dates — Rewards for pensioners scheduled for professional and anniversary dates
Efficient rotation and relocation of personnel	— Housing rent compensation
Contributing to the health and operating efficiency of personnel	— Voluntary medical insurance — Accident insurance — Compensation for wages lost due to temporary disability — Sanitarium and health resort treatment — Financial assistance related to illness
Social support of personnel	— Financial assistance connected with scheduled leaves, marriages, childbirth, and funerals — Additional leave — Monthly payments to employees with many children or children with disabilities

Employee housing improvement

Over the past two years Federal Grid Company has been making efforts to provide its employees with the quality housing. The project aims at attracting and retaining highly qualified personnel that play a key role in ensuring the UNEG reliability.

In February 2012, Russian Prime Minister Vladimir Putin approved the initiative to develop in the Company its own housing stock.

The Company worked out the 2012-2014 Corporate Housing Program that provides for aquiring/constructing 1,500 apartments with a total area of 81,000 squre meters in 47 regions of the Russian Federation.

The source of funding for the program are the funds saved in the implementation of the Company's investment program, including funds resulted from the reduction in cost of contract work and improvement of procurement activities.

In 2011-2012, the Company created corporate housing stock (from ready-made building projects or housing under construction) in the number of more than 600 apartments in the Primorsk, Krasnoyarsk, Krasnodar, Stavropol, Trans-Baikal, Khabarovsk , Amur, Saratov and Tyumen Regions, in Yamal-Nenets Autonomous District and Khanty-Mansiisk Autonomous District, and the Chechen Republic.

In 2013, the implementation of the program will continue, and the housing geography will expand significantly through developing the corporate housing for the Company's employees in Leningrad, Kaluga, Belgorod, and Sverdlovsk Regions, the Republic of Dagestan, Adygea, Republic of Sakha (Yakutia), Buryatia, and in a number of other regions of Russia.

Corporate housing allows the Company to provide key, remote power facilities, as well as those under construction, of the Unified National Electric Grid with highly qualified specialists.

In May and August 2012, the Company commissioned 182 apartments in Adler, settlements Shahumian and Shepsi for the personnel of the Company's Sochi enterprise.

Corporate apartments were also given to the employees of Kubanenergo - Sochi Electric Grids. Thanks to the corporate housing, the Company has managed to attract the best professionals from all over Russia for the construction and operation of the 2014 Olympic power facilities.

In early 2013, the Company is commissioning corporate housing for employees who ensure the operation of the Company's facilities in the cities of Grozny, Budennovsk, Nevinnomissk snd Abinsk.

We are planning to build a house for the Company's employees in the village Mogocha, where there is one of the Company's innovative facilities - a transforming compex using a DC link. In the village of Tayozhniy in the Krasnoyarsk Region a house is being built for employees enganged in making power delivery from the Boguchanskya HPP. A corporate housing stock was built in Vladivostok, where the Company's specialists are operating power supply facilites of Russkiy Island, the Eastern Siberia - Pacific Ocean oil pipeline and other energy facilities that provide a reliable power supply to the Primorsk Region.

The Company also implemented a long-term corporate assistance program to upgrade employees' housing conditions.

Employees who purchase an apartment of their own with the use of bank credits can apply to the Company for help in the form of compensation, loans and other financial instruments.

In 2012, this program benefited 386 employees, including 141 young specialists. During the entire period of the program (since February 2011) the Company has helped 708 employees, including 282 young specialists, purchase housing options of their own.

The Company compensates the cost of housing to its employees, whose working activity involves moving to another locality. In 2012, the number of employees renting various accommodations with corporate support was 653, including 334 young specialists. Young specialists are eligible for this benefit for a period of the first three years. This program is one of the most important factors for attracting young specialists graduated from the universities of the country's leading energy instituitons to work at the Company's power facilities.

Non-governmental Pension Programs

A non-governmental pension program for corporate employees was approved in 2004. The implementation of this program allows the Company to achieve the personnel rejuvenation effect, helps attract and retain the best industry professionals and provide social support to employees, even after retirement.

The Program's main principles are:

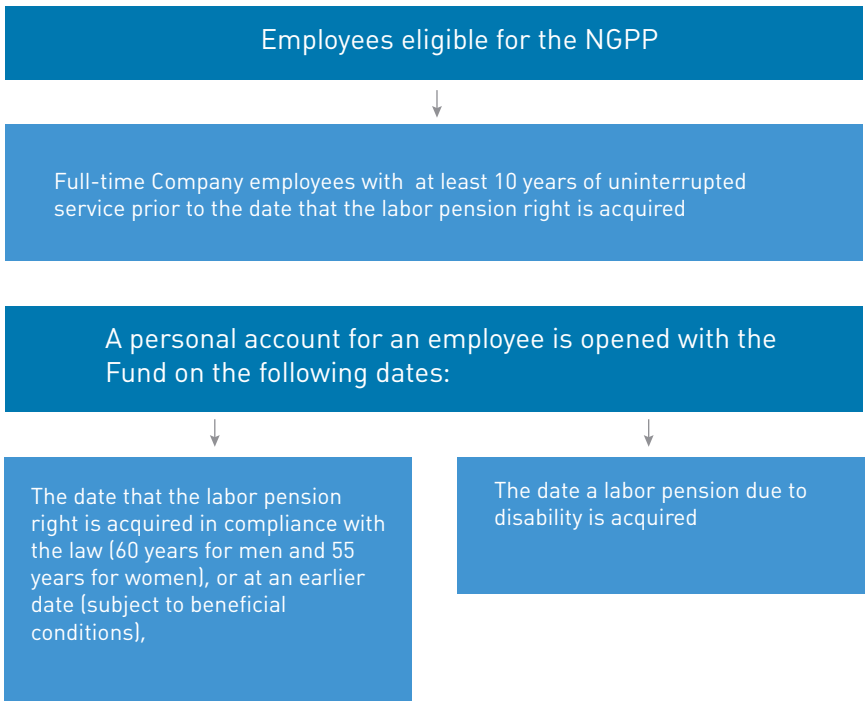
— Unified approach to organizing a non-governmental pension fund scheme in Federal Grid Company;

— Differentiated approach to the non-governmental pension amount;

— Rewarding employees for their services to Federal Grid Company and the electric power industry, and for their continuous and conscientious work.

Since the program launch (from 2004 to 2012), non-governmental pension from Federal Grid Company funds has been provided to 3,628 employees.

In accordance with norms of the Regulation on Non-Governmental Pension Provision to Federal Grid Company employees, a total of RUR 320,735,413 was transferred to the non-governmental pension fund of the power industry in 2012.



Help to flood victims in the Krasnodar Region

The flood in Krymsk, in the south of the Krasnodar Region, which happened at the beginning of July 2012, damaged homes and property of 22 employees of the Company's branch — Kubanskoye PMES. Federal Grid Company took all necessary steps to ensure that daily life of the affected empoyees went back to normal as soon as possible. The employees who had their properties suffered from the Krymsk flood received non-repayable subsidies to construct, purchase and repair their housing. The total amount of non-repayable subsidies comprised more than RUR 24 million.

The assistance program for affected employees was developed in Federal Grid Company on the initiative of the Chairman of the Management Board Oleg Budargin who personally controlled the program implementation since the first days and until the fulfillment of social obligations taken by the Company. During this period, he met twice with the affected employees and their families.

Charity projects

The spending limit for charitable purposes is approved by the Board of Directors of Federal Grid Company in the annual business plan. The decision to provide charitable aid to legal entities on each request received in the head office is taken by the Management Board of Federal Grid Company. In accordance with the conditions of charitable donation contracts, in 2012, Federal Grid Company sent letters to all donation recipients and requested to provide reports on the expenditure of funds under the relevant contracts.

In 2012, the Company donated a total of more than RUR 138 million to help numerous sports, cultural, scientific and charitable organizations.

Donations have been provided to the following legal entities: Regional Charitable Public Organization of Invalids and Pensioners of Chernobyl of the Ministry of Fuel and Energy, the Charity Aid Fund to People Who Have Found Themselves in a Difficult Situation "Step Forward", a non-profit organization Joint Hockey Club "Dynamo", the Development Fund of the Moscow Power Engineering Institute and other.

The amount spent by the Company to provide aid to physical persons in 2012 comprised RUR3.7 million. Separately, by the decision of the Management Board of Federal Grid Company, twenty employees of the Kubanskoye PMES facility (one of the Company's branches) who had properties suffered from the Krymsk flood received non-repayable subsidies to upgrade their housing conditions. The total amount of non-repayable subsidies comprised more than RUR24 million. Furthermore, Company employees collected more than RUR 5 million to aid the people of Krymsk.

Labor Protection

The top priority of the Company's labor safety policy lies in sustaining the lives and health of the employees.

The Company has reviewed and introduced a revised version of the Labor Safety Management Policy (developed taking into account the requirements of GOST12.0.230-2007 and OHSAS 18001:2007 International Standard). The Policy was effected in March 2012.

The Company also spends considerable amounts to implement organizational, technical and preventive initiatives to improve the safety of the employees. The key initiatives implemented in 2012 include the following:

1. The operation of mobile event data recorders used to record the most dangerous actions of personnel operating electric installations.

2. The efficient operation of 50 stationary and 17 mobile labor safety units to organize and promote safe labor conditions, and to train the personnel on safe methods of work, taking into account today's requirements.

3. The continued efficient operation of psychological relief rooms to prevent and eliminate the adverse functional conditions of substations' personnel.

To prevent occupational accidents the Company performs annual employee injury risk assessments.

The Company performs annual employee injury risk assessments.

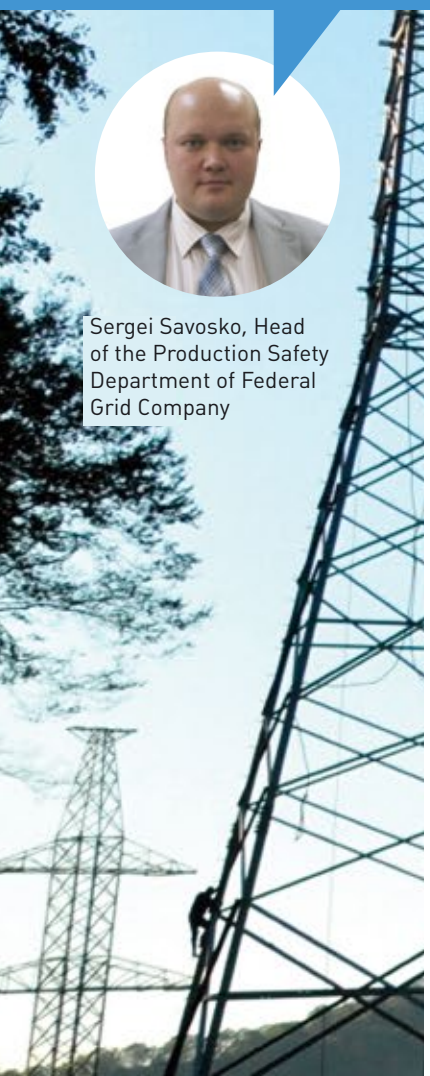
The Company implemented a system to assess the efficiency of labor safety management.

The Company has approved a list of initiatives to prevent occupational accidents at the Company facilities.

The Company conducts periodical certification of workplaces.

A positive effect of a set of measures comprising a labor safety management system can be felt through a decrease in injury rates and the number of emergencies occurring in the course of the Company's economic activities. In 2013 the number of accidents occurring in the Company and its SDCs fell by 14.5%, compared with the previous year. The employee injury rate fell by 12.5%.

Nonetheless the Company is aware of current labor safety issues and we are going to proceed with improving labor safety to preserve the health of our employees.

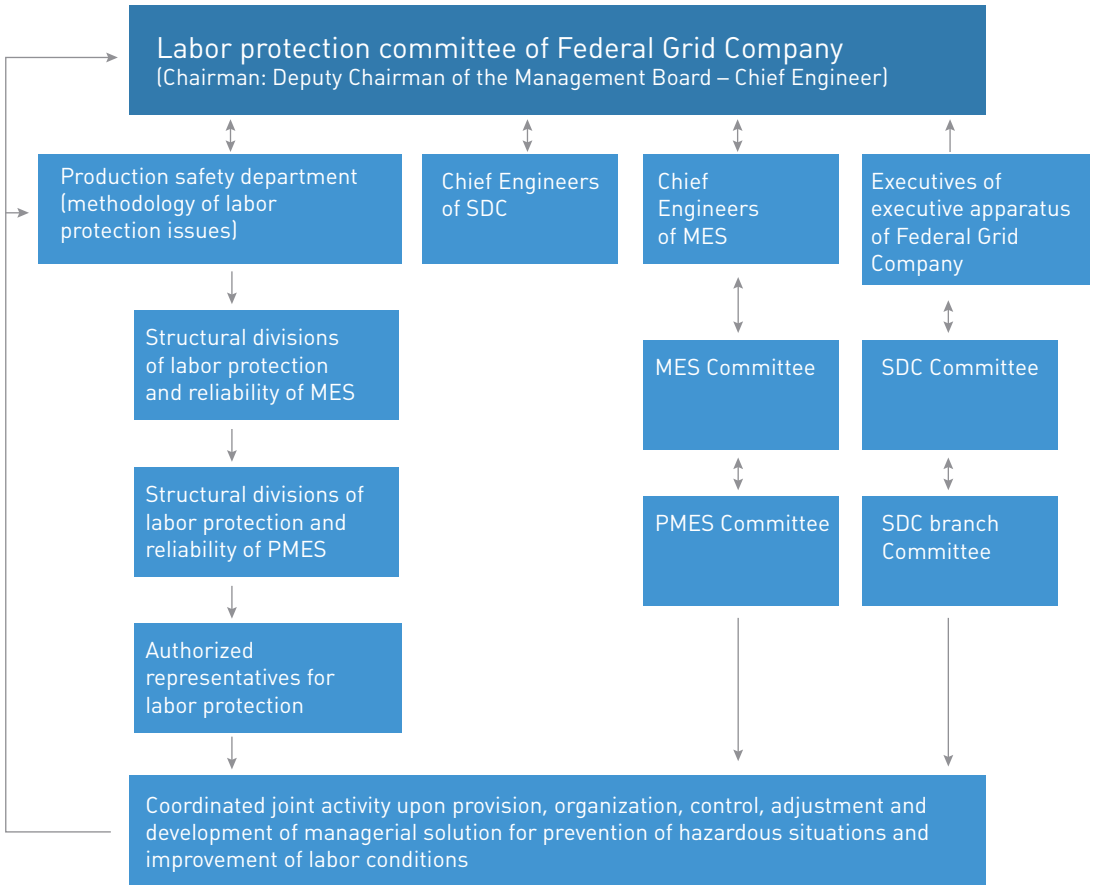


Sergei Savosko, Head of the Production Safety Department of Federal Grid Company

System for management of labor protection and priority directions of activity

Federal Grid Company attributes close attention to ensuring of safety at the workplace. In 2010 in the Company was created the risk management system in the sphere of labor protection. Its aim is avoidance and prevention of workplace injuries and creation of favorable working conditions.

Labor Protection Management Scheme in Federal Grid Company



Company policy upon issues of labor protection is elaborated by the Committee for labor protection, collegial consultative body composed from the representatives of executive apparatus, chief engineers of the branches of the Company (MES) and SDCs of the Company – 21 persons. In 2012 were held 4 meetings of the Committee at which were developed measures aimed at prevention of workplace injuries.

At the level of branches of the Company – MES, PMES are active Labor protection committees*, usually headed by chief engineers. The Committees monitor the observance of labor protection requirements by the personnel, fulfillment of measures aimed at prevention of workplace injuries and occupational diseases among employees.

In the branches of Federal Grid Company in 2012 were active 50 Labor protection committees comprised of 949 persons.

* The work of Committees is based upon "Sample regulation on labor protection committee in branches of Federal Grid Company – PMES", enacted since 2009.

During the reporting period were held 279 meetings, at which were considered 1234 issues. Upon all considered issues the resolutions of Labor protection committees were implemented.

The labor teams of the production structural divisions of PMES (substations, services of maintenance of substations, high voltage lines as well as relay protection and controls, laboratories, metrology services, transport services etc.) elect the authorized persons (nominees) in the sphere of labor protection* by open voting at the general meeting of the employees of the branch structural division for a term not exceeding 3 years. In 1,153 structural divisions of EMEG branches were elected 794 authorized persons (nominees) in the sphere of labor protection. In other labor collectives the elections were not held due to territorial remoteness and separateness (mechanization areas, relay protection and emergency controls etc.). During 2012 607 authorized persons underwent training at the special labor protection courses.

The authorized persons control the labor protection conditions in theirs structural divisions as well as the observance of labor protection norms by the employees of the structural division. With their active involvement are held the Days of labor protection and fire safety. Owing to the work of the authorized persons was increased the number of inspections of the working brigades with the aim of decrease of errors during preparation of workplaces and clearance, including personnel detached for service.

The priority directions of the Company's activities in the field of labor protection are:

— exclusion of cases of production injuries and occupational diseases;

— forming of safe behavior among employees of the Company at production facilities as well as the skills for prevention of dangerous situations;

— continuous improvement of labor conditions.

In accordance with state normative requirements in Federal Grid Company was introduced the Procedures for identification of hazards and evaluation of injury risk at facilities of Federal Grid Company. On an annual basis the Company conducts work aimed at identification and elimination of risks of injury at the Company's facilities.

A target KPI indicator was introduced in the Company for executives of the Company as well as executives of MES, PMES in the sphere of labor protection: "Absence of lethal accidents at production or group accident in case of availability of grievously injured." As of year-end 2012, the KPI was fulfilled for Company executives and most of executives of MES and PMES, as during investigation of accidents by commissions, chaired by state labor inspectors from Federal Labor Inspectorate of Russia no guilt of Company executives as well as executives of MES and PMES was identified.

* By the Order of Federal Grid Company No. 781 dated 08.10.2010 was introduced the "Sample regulation upon authorized person (nominee) of the labor collective in branches of Federal Grid Company – PMES".

The Company invests significant funds at organizational technical as well as preventive measures aimed at increase in the level of safety of employees. The key measures undertaken in 2012 are:

1. Was implemented the project of introducing mobile video recorders in operation for recording of most dangerous actions of personnel working at power units.

2. Together with the respective structural divisions of the executive apparatus of Federal Grid Company and branches of the Company – MES, was developed the Complex program for improvement of labor conditions at facilities for the period of 2012-2017.

3. Was organized effective operation of 50 permanent and 17 mobile labor protection offices for organization and conduction of promotion of safe labor conditions, training of personnel in the sphere of safe labor technics taking into account the modern requirements.

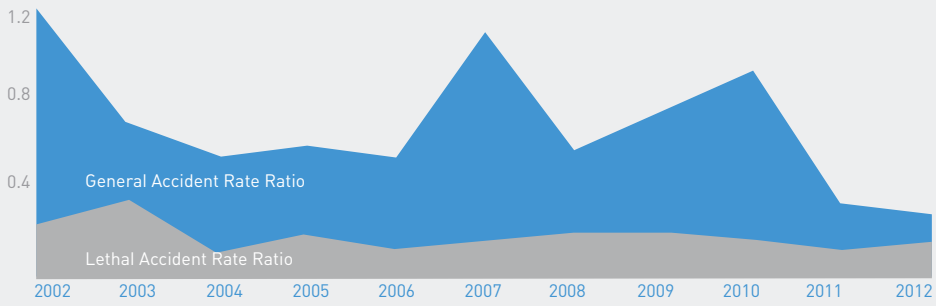
4. Was continued the practice of effective functioning of psychological release rooms for prevention and correcting unfavorable functional condition of the operating personnel of substations.

In 2012 was continued conduction of review contest for best organization of work in the sphere of labor protection among branches of Federal Grid Company – MES, PMES. Samara enterprise of MES Volga branch was recognized as the best in terms of organization of labor protection work.

Injury indicators

For the first time during 10 years the coefficient of general accident rate in Federal Grid Company reached a minimum level. For objective evaluation of accident level the following specific indicators are used: R_G – general accident rate ratio (number of injuries for 1,000 employees); R_{LAR} - lethal accident rate ratio.

General and Lethal Accident Rates at the Company's Facilities



In 2012 in MES branches of Federal Grid Company occurred 6 accidents, during which were injured 7 persons:

— 6 persons during work at the UNEG objects (substations and high voltage lines);

— 1 person during a road traffic accident.

In SDCs (Elektrosetservic UNEG, CIUS UES and MGTS) no cases of production accidents were recorded, in comparison with the previous year the number of injured employees decrease (from 2 persons in 2011 to absence of injured in 2012).

On the whole in 2012 in branches and SDCs of the Company in comparison with the previous year the number of accidents decreased by 14.3% (from 7 to 6 cases). At the same time the number of injured employees decreased by 12.5% (from 8 to 7 persons). The level of lethal injuries increased by 33% (from 3 to 4 persons).

The most widespread types of accidents in 2012 were:

— injury by current including from induced voltage at high voltage lines;

— impact of voltaic arc (while approaching current-carrying lines under voltage at an impermissible range).

Protection from electromagnetical impact at workplace

Federal Grid Company conducts regular appraisal of workplaces in terms of working conditions. One of the evaluated indicators is the level of electromagnetic interference (EMI) at the workplace. According to sampling performed by specialized organizations:

— the level of electromagnetic intensity at permanent workplaces of substations did not exceed 5 kV/m;

— in places of temporary fulfillment of maintenance works the level of electromagnetic intensity was in the interval between 5 and 30 kV/m.

In accordance with SaNPiN (sanitary norms and regulations) 2.2.4.1191-03 "Electromagnetic field under production conditions" the maximum permissible level of intensity of electric field under impact of less than 1 hour per shift is 60 kV/m.

Protection of employees from unfavorable impact of EMI is performed by conduction of organizational measures (insulation of zones of EMI impact, location of workplaces and directions of the servicing personnel at sufficient range from EMI sources, ensuring the observance of maximum permissible levels) as well as engineering and technical measures (introduction of new technologies and usage of individual protective equipment for protection against electromagnetic fields (EP-1-summer, EP-3-winter).

Managing of the Economic Impact

Federal Grid Company of Unified Energy System

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

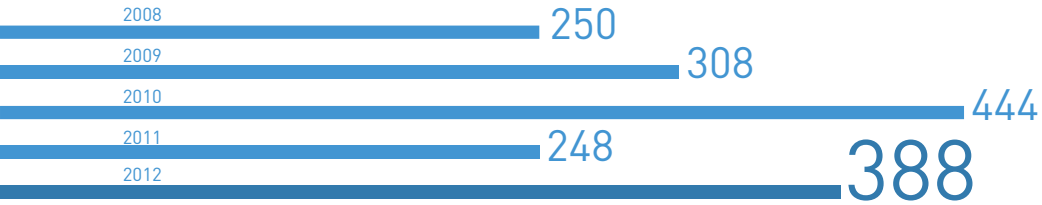
Technological connection is a complex service providing for actual connection of power receivers (power units) of potential counteragents to the facilities of electric grid system. The company provides services of technological connection to consumers, distribution grid companies and facilities producing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

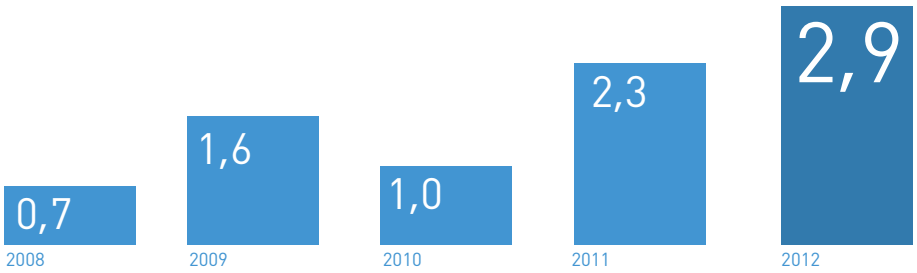
During the reporting year the Company signed 388 agreements on technological connection, which is 56% more than in 2011.

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.

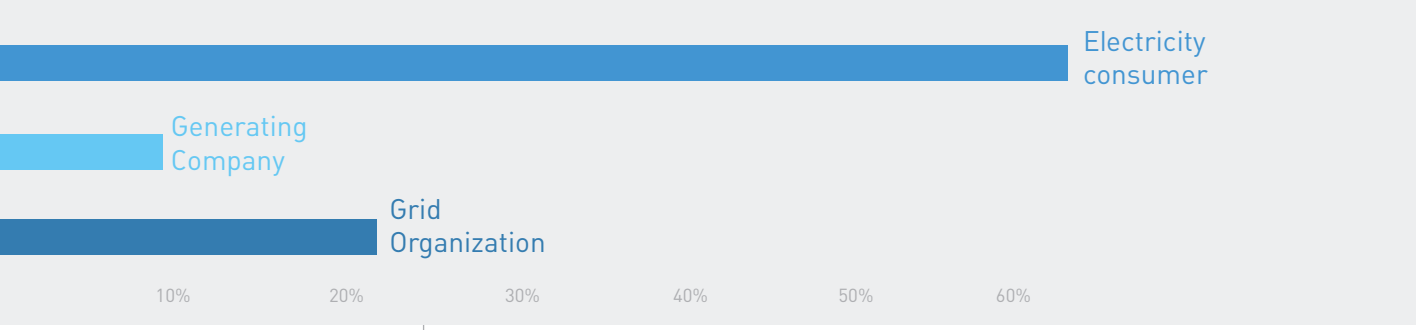
Consumer relations

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.

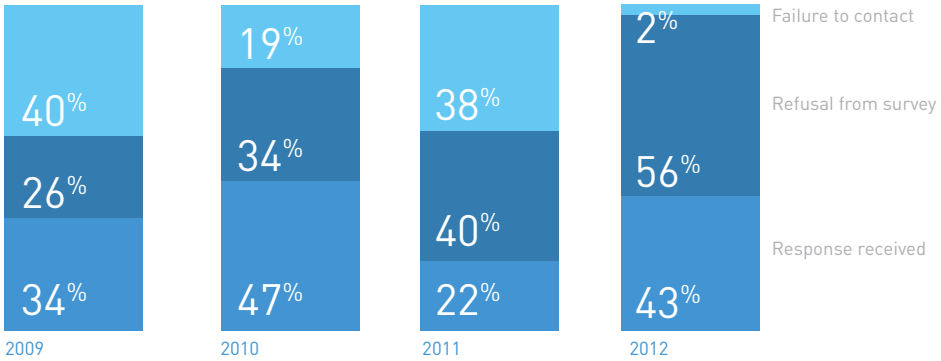
In 2012 the clients, who were in the beginning of the process of technological connection, and the clients that had been connected before, participated in the survey. At the same time the main bulk of those surveyed were at the stage of realization of measures of technological connection (35%), and a 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



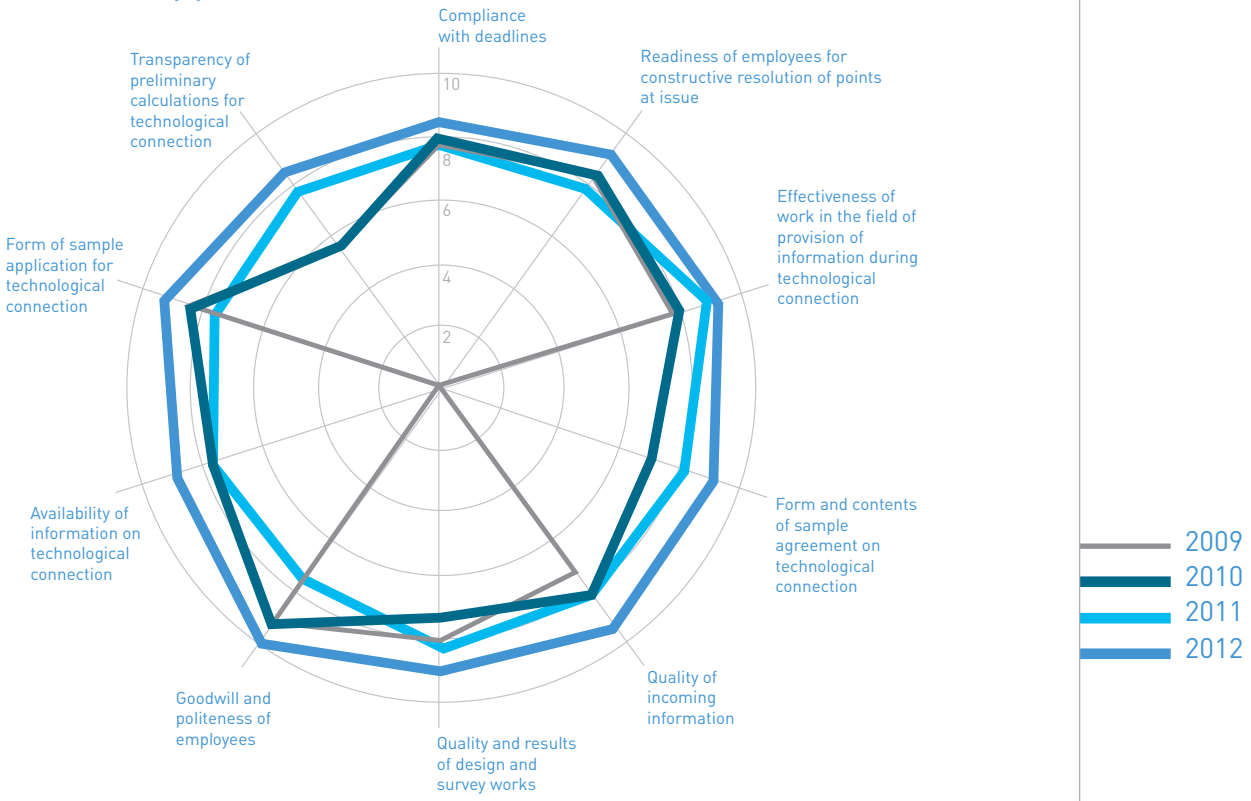
Change of Response from Those Surveyed in 2009-2012



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 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.

Participation in Implementation of Large Scale National Projects

Provision of electric energy to the constructed objects for the 2014 Olympics

At year-end 2012 the personnel of Federal Grid Company was marked by a letter of appreciation from the President of Olympstroi state corporation Sergey Gaplikov "For prompt organization of technological connection of power receiving facilities of sports Olympics objects to the Company's grid".

Federal Grid Company already provided supply of electricity to eight Olympic facilities of the state corporation.

Among them are: ice arena for figure skating and short track competitions, roofed speed skating center, bobsleigh/luge track in Krasnaya Polyana and five-star hotel for accommodation of the representatives of International Olympic Committee. For the power supply of 2014 Olympics Federal Grid Company performs construction and modernization of 33 main electric grid objects in accordance with timeline set by the International Olympic Committee and the Program of construction of Olympic objects and development of city of Sochi as a mountain climatic resort.

Electric grid infrastructure for the objects of soccer World cup 2018

On November 20, 2012 at the branch of Federal Grid Company — Nizhegoroskoye PMES took place the joint meeting of the representative of the Company and IDGC of the Center and Volga Region upon the issue of synchronization of measures needed for realization of energy supply to the objects of the soccer World Cup 2018.

Within the framework of preparation to World Cup – 2018 it is planned to reconstruct 7 existing stadiums and construct one new stadium as well as to improve the transport infrastructure, in particular to construct four new metro stations; in addition will be completed the construction of International airport in Strigino, new hotel facilities and medical institutions will appear in the city.

With the aim of reliable and uninterrupted energy supply of these objects MES Volga branch of the Company planned the implementation of a number of large scale projects: in 2013 will be completed the complex rehabilitation of 220 kV Zarechnaya substation, will be implemented projects of technological connection of two substations — 110 kV Strelka substation, 220 kV Diesel substation as well as technological connection for realization of capacity output schemes of Novogorkovskaya TPP and Nizhegorodskaya TPP.

Within the framework of preparation for the World Cup IDGC of the Center and Volga Region plans to introduce 107 MW of new capacities.

Energy supply of Skolkovo Innovation center

The Project of energy supply of Skolkovo Innovation center realized by Federal Grid Company is in a class by itself in terms of complexity and technological intensity. During realization of the project were implemented high tech achievements:

— ecologically safe gas-insulated equipment;

— automated system for management of technological processes of substations;

— modern micro processing devices of relay protection and emergency control automatics;

— automated data measuring system for commercial measurement of electric energy contributing to optimization of expenses on electricity by consumers through difference between "day" and "night" tariffs;

— large energy storage units;

— solar batteries and many other achievements.

Federal Grid Company developed a unique "smart energy system" for "smart city" – a prototype of energy system, which will be used in large cities of the future. The investment in construction amounted to RUR 3.6 billion.

External energy supply for construction of Vostochny spaceport

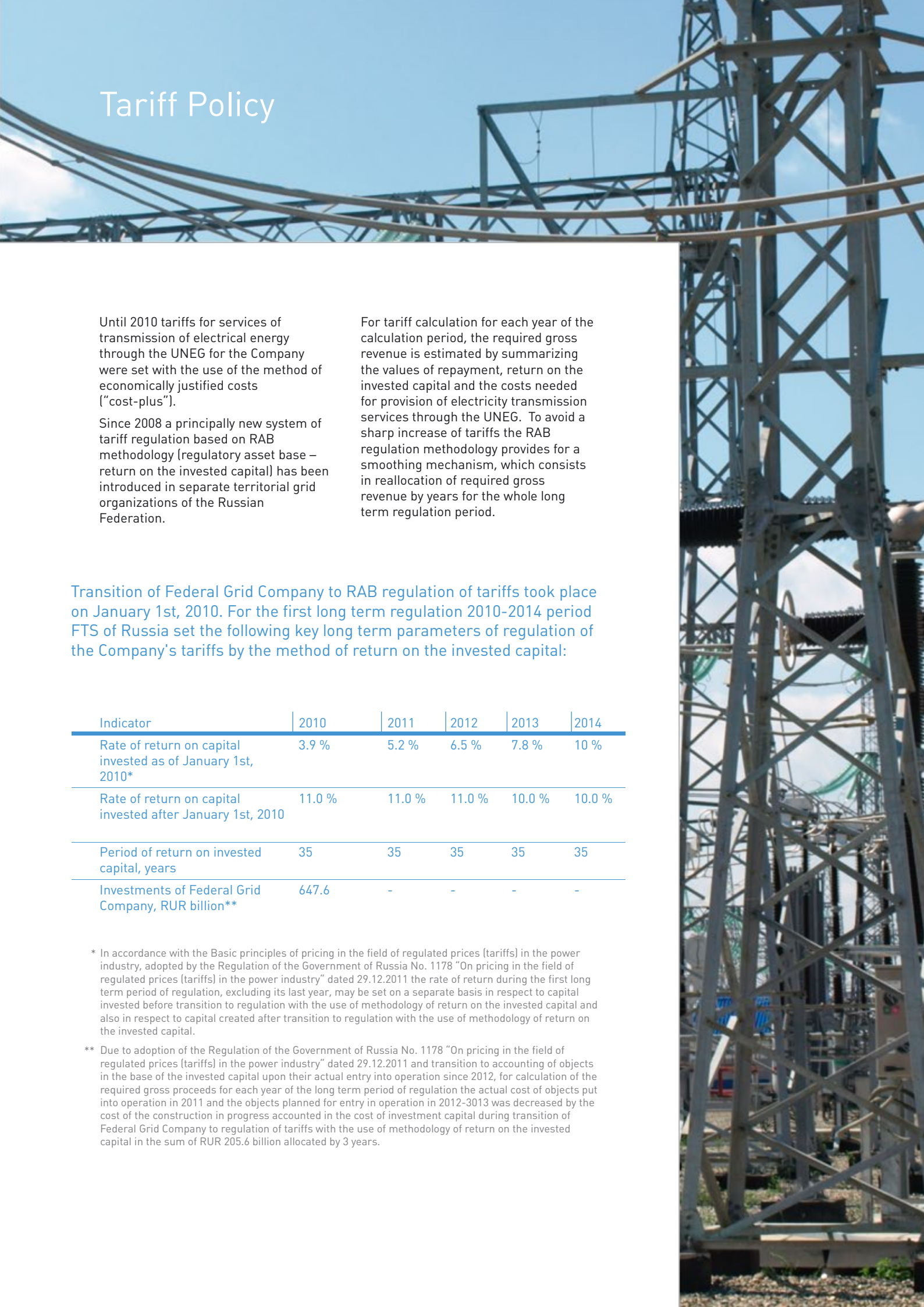
The branch of Federal Grid Company – MES East completed project design works for external energy supply of the construction of Vostochny spaceport and the objects of its infrastructure, which provide for expansion of the operational 220 kV Ledyanaya substation in Amur region.

Implementation of the project is planned to be completed in 2013. Until the end of 2013 three new linear cells of 220 kV switchgear will be installed at the substation, which will allow to provide with electrical energy the construction of the space port and of its infrastructure, including the cosmonaut training center, spaceport control point and communications center.

Energy supply of the objects of Eastern Siberia - Pacific Ocean oil pipeline (ESPO)

The construction of oil pipeline system "Eastern Siberia – Pacific Ocean" is the largest project of the last decade implemented by Transneft for transport of Russian oil to the prospective market of the Asian-Pacific region. Since 2010 within the framework of Agreement on cooperation between Federal Grid Company and Transneft, the Company performed construction of objects of external energy supply for ensuring of reliable supply of 13 oil transfer pumping stations and the oil loading port of Transneft. Currently within the framework of the Basic agreement concluded between Federal Grid Company and Transneft, the Company realizes external energy supply schemes for another oil pumping stations of Transneft (including Zapolyarie-Purpe pipeline) as well as 3 oil pump stations pipeline allotment to Komsomolsky oil refinery plant with the commissioning period from 2014 to 2016.

Tariff Policy



Until 2010 tariffs for services of transmission of electrical energy through the UNEG for the Company were set with the use of the method of economically justified costs ("cost-plus").

Since 2008 a principally new system of tariff regulation based on RAB methodology (regulatory asset base – return on the invested capital) has been introduced in separate territorial grid organizations of the Russian Federation.

For tariff calculation for each year of the calculation period, the required gross revenue is estimated by summarizing the values of repayment, return on the invested capital and the costs needed for provision of electricity transmission services through the UNEG. To avoid a sharp increase of tariffs the RAB regulation methodology provides for a smoothing mechanism, which consists in reallocation of required gross revenue by years for the whole long term regulation period.

Transition of Federal Grid Company to RAB regulation of tariffs took place on January 1st, 2010. For the first long term regulation 2010-2014 period FTS of Russia set the following key long term parameters of regulation of the Company's tariffs by the method of return on the invested capital:

Indicator	2010	2011	2012	2013	2014
Rate of return on capital invested as of January 1st, 2010*	3.9 %	5.2 %	6.5 %	7.8 %	10 %
Rate of return on capital invested after January 1st, 2010	11.0 %	11.0 %	11.0 %	10.0 %	10.0 %
Period of return on invested capital, years	35	35	35	35	35
Investments of Federal Grid Company, RUR billion**	647.6	-	-	-	-

* In accordance with the Basic principles of pricing in the field of regulated prices (tariffs) in the power industry, adopted by the Regulation of the Government of Russia No. 1178 "On pricing in the field of regulated prices (tariffs) in the power industry" dated 29.12.2011 the rate of return during the first long term period of regulation, excluding its last year, may be set on a separate basis in respect to capital invested before transition to regulation with the use of methodology of return on the invested capital and also in respect to capital created after transition to regulation with the use of methodology of return on the invested capital.

** Due to adoption of the Regulation of the Government of Russia No. 1178 "On pricing in the field of regulated prices (tariffs) in the power industry" dated 29.12.2011 and transition to accounting of objects in the base of the invested capital upon their actual entry into operation since 2012, for calculation of the required gross proceeds for each year of the long term period of regulation the actual cost of objects put into operation in 2011 and the objects planned for entry in operation in 2012-3013 was decreased by the cost of the construction in progress accounted in the cost of investment capital during transition of Federal Grid Company to regulation of tariffs with the use of methodology of return on the invested capital in the sum of RUR 205.6 billion allocated by 3 years.

In April 2011 due to the necessity of restraining of tariffs on electrical energy was adopted the resolution on smoothing of tariffs of electric grid companies (deferral of part of the required gross revenue to the subsequent years).

By the Order of FTS of Russia No.552-e/2 dated December 29, 2009 (as amended by the Order of FTS of Russia No. 325-e/1 dated December 6, 2011) the tariffs on electricity transmission by the UNEG for the Company since January 1, 2012 till July 1, 2012 are set at the level of 2011 tariffs.

In accordance with Basic principles of pricing, by the order of Federal Tariff Service No.113-e/1 dated May 21, 2012 was adjusted the rate of return on "old" capital set for the 2014: the rate of return on old capital in 2014 is set at the level of rate of return on "new capital"- 10%.

The tariff rates on services of electric energy transmission on maintenance of electric grid facilities, which are part of the UNEG, for republics of the Northern Caucasus and the Stavropol Region:

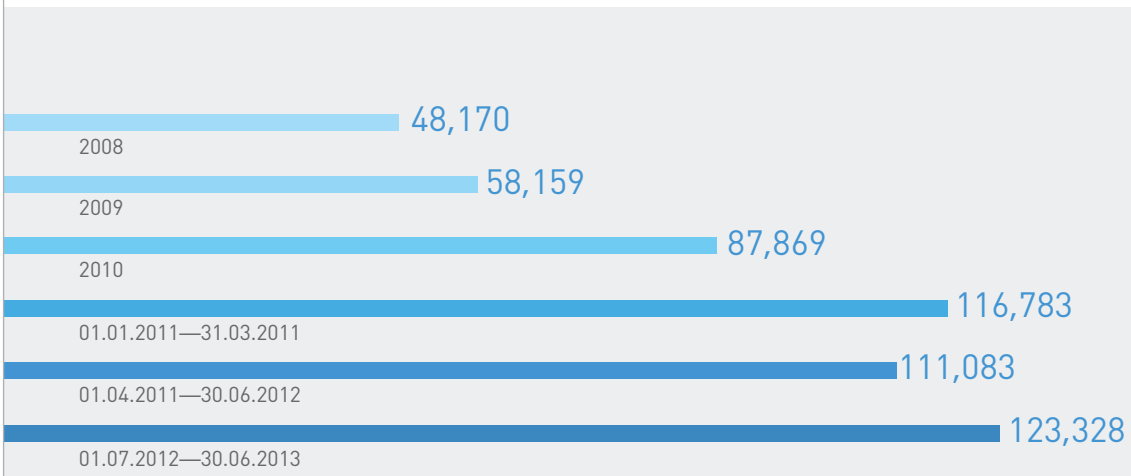
For 2010 – 37,845.23 RUR/MW*month.

For the period from 01.01.2011 till 31.03.2011 – 46,029.88 RUR/MW*month;

For the period from 01.04.2011 till 30.06.2012 – 43,783.55 RUR/MW*month;

For the period from 01.07.2012 till 30.06.2013 – 48,540.01 RUR/MW*month.

2008- 2012 Tariff Rates on Services of Electric Energy Transmission on Maintenance of Electric Grid Facilities, which are Part of the UNEG Set for the Company (RUR/MW*month)



Russian Grids: Federal Grid Company and IDGC Holding

With the aim of increasing effectiveness and development of electric grid complex of the Russian Federation and coordination of works upon management of the complex, restraining the tariff growth for the end consumers of the electric energy on November 22, 2012 the President of the Russian Federation signed decree No. 1567 "On open joint-stock company "Russian grids".

For realization of measures of the decree in Federal Grid Company was created a Coordination committee headed by the Chairman of the Management Board Oleg Mikhailovich Budargin.

Russian Grids

Anti-corruption and Prevention of Conflict of Interests System

Federal Grid Company of Unified Energy System

Federal Grid Company`s Anti-Corruption Policy

The Company strives to deal with contractors who conduct their business in open and fair manner.

Based on the analysis of the global best practices the Company management decided to move the anticorruption priority to the next level in 2012. Therefore the Company started to implement a compliance system, meaning the organizational principles of financial and economic activities that prevent groundless damage and the loss of goodwill occurring due to corruption, the violation of the norms of the Russian laws, or the internal corporate regulations. A Corporate and Anticorruption Procedures Department established within the Executive Body of the Company is responsible for the formation and implementation of the compliance system. In accordance with the international standards, the Department reports directly to the Chairman of the Company's Management Board.

Apart from the changes in the organizational structure, there also took place a number of changes in the Company's legal framework in 2012. The first thing to note is the approval by the Board of Directors of the Company's Anticorruption Policy, which is a fundamental document regulating anticorruption initiatives and defining key tasks, principles and priorities of anticorruption activities.

A precondition required to achieve the goals stated in the Anticorruption Policy consists in the development of a set of the Policy implementation initiatives, meaning a Program to prevent corruption and to regulate the conflict of interests within the Company in 2012-2014. The Program was approved by the Company's Management Board.

To perform according to the instructions of the President Putin V.V., and the decisions of the Presidential Commission on the Development Strategy of Fuel and Energy Complex and Environmental Issues, to provide for the transparent financial and economic activities and to prevent the conflict of interests, the Company launched an automated process of acquisition and analysis of data on the owners (including end beneficiaries) obtained from the contractors. The Company introduced annual declarations stating data on property, income and property liabilities of the Company top managers.

One more activity pertaining to the exclusion of contractual relationships with unfair contractors consists in the inclusion into the contracts of an anticorruption stipulation, which allows the establishment of business relationships only with partners supporting the Company's Anticorruption Policy and conducting their business in open and fair manner.

Apart from the priorities of the Anticorruption Policy listed above, in 2012 the Company exercised anticorruption control over the purchasing activities, including the control over the execution of legal documents pertaining to the land used for the UNEG facilities construction. The Company also conducted anticorruption assessment of the industry guideline documents and their drafts, controlled the Company's participation in charity initiatives and the interaction with government officials. The Company's subsidiary and dependent companies implemented their own anticorruption policies. The Company checked the applications submitted by the Company employees, contractors and other physical persons and legal entities, informing the Company about instances of corruption. Other initiatives included managing the conflicts of interests, and anticorruption monitoring, etc.

In 2012 the Company was focused on corruption prevention, legal education and the formation of loyal behavior of its employees. The initiatives included different topical training sessions, and seminars for the Company employees. The Company employees and those of its branches and dependent companies participated in an anonymous survey intended to identify the personnel's understanding and attitude to the Company's Anticorruption Policy.

The Company's continuous efforts have their results, with 4 546 contractors checked in 2012 (twice as many, compared to 2011). The number of industry guideline documents checked for corruption potential grew twice, with the number of documents checked during anticorruption monitoring of purchasing activities growing thrice (compared to 2011), while the economic effect amounted to RUR 116 million.

Throughout the formation period of the Company's Anticorruption Policy we had to deal with a number of difficult tasks and despite the success of the Company's actions, we are going to proceed with improvement and development of our anticorruption priority, conducting anticorruption initiatives on a systematic basis. We plan to actively revise the Company's internal legal framework pertaining to the implementation of corporate and anticorruption compliance procedures, and to implement new preventive measures within the existing business processes.

Viktoria Nikiforova, Director of Corporate and Anticorruption Procedures Department

The formation of JSC Federal Grid Company`s Anti-Corruption Policy began in 2010 by adopting JSC Federal Grid Company`s Program for Anti-corruption and Settlement of Conflicts of Interest for 2010-2011 and the Plan of main activities on implementing Program for 2010 - 2011.

In 2010-2011 Federal Grid Company was improving legal regime of anti-corruption activities.

During this period, the Company:

— developed a number of organizational and administrative documents in the field of anti-corruption;

— set up anti-corruption examination of documents, anti-corruption control over procurement activities, and anti-corruption monitoring system;

— formed a Commission to observe the rules of corporate conduct and settlement of conflict of interests;

— set up an interactive channel to communicate with the Company`s contractors - legal entities and individuals - via a "hot line" (Internet site, "helpline");

— began corruption prevention work, legal education and developing the foundations of law-abiding behavior of the Company`s employees.

The activities resulted in the approval* of JSC Federal Grid Company`s Anti-Corruption Policy in 2012, the basic document setting out the main objectives, principles and areas of anti-corruption activities of the Company.

Goals, objectives, principles and areas of Federal Grid Company`s Anti-Corruption Policy

Goals:

— prevention of corruption;

— ensuring liability for cases of corruption;

— forming anti-corruption awareness.

Principles:

— intolerance of corruption in implementing functional business processes and strategic projects;

— minimizing the risk of business relationships with contractors that may be involved in corrupt activities or tolerate corrupt practices;

— head is an ethical standard and an example of an uncompromising attitude toward all manifestations of corruption;

— priority of preventive measures to prevent corruption and raising moral principles which do not accept corrupt practices;

— inadmissibility of privileges and immunities that limit liability for cases of corruption;

— inadmissibility of restrictions on access to information on corruption and anti-corruption policy measures;

— monitoring, control and improvement of procedures to prevent corruption.

* The Anti-Corruption Policy was approved by the Company's Board of Directors (Minutes No 171 dated 24.08.2012, put into effect by the Company's Order No 545 dated 12.09.2012)

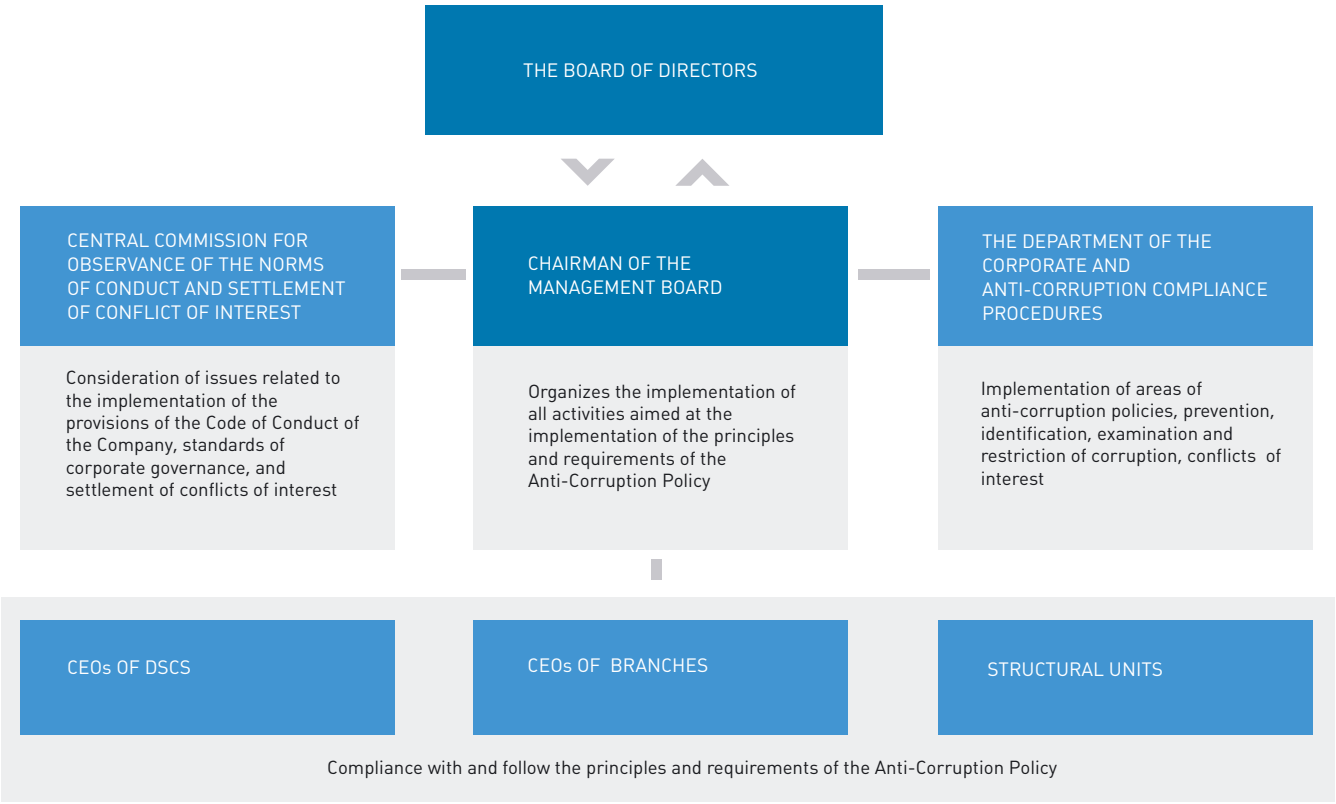
Objectives

— Formation of uniform understanding of the Company's position on the rejection of corruption in all forms and manifestations of the shareholders, the investment community, contractors, administrative authorities and employees;
— minimizing the risk of involving the Company`s employees in corrupt activities;
— ensuring liability for cases of corruption;
— compensation for damage caused by corruption manifestations;
— monitoring the effectiveness of anti-corruption policy;
— setting up a legal mechanism to prevent bribery of subjects of anti-corruption policy;
— placing the Company's employees under an obligation to know and comply with the requirements of the Policy and key norms of anti-corruption legislation;
— providing incentives to replace positions in the Company by incorruptible persons.

Areas

— anti-corruption expertise;
— anti-corruption procurement monitoring;
— anti-corruption monitoring;
— considering applications of corruption of the Company's employees, contractors and other persons;
— conflict of interests management;
— anti-corruption clause in interacting with contractors;
— analysis of income in forming the Company`s top management;
— transparency of participation in charitable activities and sponsorship;
— facilitating the implementation of its own anti-corruption policies in subsidiaries and dependent companies of the Company;
— monitoring of payments made through intermediaries or in favor of third parties.

The Company`s Anti-corruption Activities Management Structure



Effective management of the Company`s anti-corruption activities is achieved by the interaction of the following participants:

1) The Board of Directors:

— approves the Anti-Corruption Policy, including amendments and additions;

— identifies key areas of Anti-Corruption Policy;

— controls the overall results of the implementation and application of the Anti-Corruption Policy.

2) Chairman of the Management Board:

— is responsible for the organization of anti-corruption activities, including appointment of responsible persons;

— monitors the implementation of Anti-Corruption Policy and submits a report to the consideration of the Board of Directors;

3) The Department for corporate and anti-corruption compliance procedures:

— carries out activities aimed at the implementation of the Anti-Corruption Policy;

— carries out activities to prevent, identify, examine and curb cases of corruption, conflict of interests;

— coordinates activities of structural units of the executive apparatus, branches, DSCs of the Company in the field of implementation of the Company`s Anti-Corruption Policy.

4) Commission for observance of the rules of conduct and settlement of conflict of interests is a collegiate authority which examines cases of non-compliance standards of corporate ethics and corporate conduct requiring resolution of conflict of interests, including cases of discovery of corruption.

5) CEOs of branches and DSCs of the Company, as well as specially created structural units of DSCs of the Company are responsible for implementing the provisions of the Company`s Anti-Corruption Policy in branches and DSCs. The Company`s structural units and employees directly observe the principles and fulfill the requirements of the Company`s Anti-Corruption Policy in their current performance.

More information about the participants of anti-corruption activities of the Company is presented in 2011 Federal Grid Company Corporate Social Responsibility and Sustainability Report

Program for Prevention of Corruption and Settlement of Conflict of Interests in Federal Grid Company for 2012-2014

The Program for Prevention of Corruption and Settlement of Conflict of Interests in Federal Grid Company in 2012-2014* contains a list of measures to implement Anti-Corruption Policy areas: anti-corruption expertise, procurement, anti-corruption monitoring and conflict of interests management, etc. Particular attention is paid to the creation of intra-corporate climate that is conducive to effective prevention of corruption, legal education and laying the foundations of law-abiding behavior of the Company employees.

The effectiveness of implementation of the Program will be evaluated on the basis of a number of indicators:

— the number of identified or prevented cases of corruption on the part of the Company's employees;

— dynamics of discovered cases of corruption in Federal Grid Company in the reporting period;

— the proportion of the total number of reports about the facts or signs of corruption practices on the part of the Company's employees confirmed by inspections.

Federal Grid Company expects that the implementation of the Program will:

— reduce the level of corruption in the Company;

— enhance the trust of shareholders, the investment community, administrative authorities and contractors to Federal Grid Company`s activities;

— reduce the risk of involving the Company and its employees, regardless of position, in corrupt activities;

— form anti-corruption awareness among employees of Federal Grid Company;

— reduce costs of the Company`s operations;

— improve the Company's reputation and image.

* Approved October 18th, 2012 (Order No 640)

Implementation of Anti-Corruption Policy and Program for Anti-corruption and Settlement of Conflict of Interests in Federal Grid Company in 2012

Anti-corruption expertise of organizational and administrative documents (OAD) and its drafts

Employees of the Department of the corporate and anti-corruption compliance procedures (hereinafter - the Department) in 2012 carried out an anti-corruption expertise* of 673 OADs, accounting for 38.3% of the total number of OADs issued in 2012. In 2011, an anti-corruption expertise of 29.7% of the total number of OADs issued in 2011 was performed (a 9% increase in the number of OADs of the Company, which were submitted to anti-corruption expertise).

In 539 drafts of 673 examined OADs 46 corruption factors were identified.

The most common violations are: illegitimate vesting with powers, exclusion from the general course of action and the use of vague wording, ambiguous terms and evaluative categories.

Anti-corruption monitoring in procurement

Anti-corruption monitoring in procurement** includes checking mechanism on non-competitive procurement procedures at the stages of planning, conclusion and execution of a transaction.

During the reporting period, anti-corruption expertise of 1,210 documents to be drawn up for the transaction was carried out, which is three times higher than in 2011.

Anti-corruption expertise allowed reduction of the level of violations, identification of bottlenecks to optimize procedures, etc.

Cost-effectiveness of anti-corruption monitoring in procurement in 2012 amounted to RUR 116,918,604.

Conflict of interests management

In 2010, Federal Grid Company established Commission for observance of rules of conduct and settlement of conflict of interests and approved the Regulations to the Commission. In 2012, on the basis of the Commission of Federal Grid Company and similar Commission of IDGC Holding a Joint Central Commission of Federal Grid Company and IDGC Holding for observance of rules of conduct and settlement of conflict of interests was established. Commissions for observance of rules of conduct and settlement of conflict of interests were set up in all branches of Federal Grid Company.

* The Order of Federal Grid Company as of 16.05.2011 No 280 "On organizing and conducting anti-corruption measures in Federal Grid Company" is the legal basis of anti-corruption expertise of OADs and its drafts.

** The Order of Federal Grid Company as of 16.05.2011 No 280 "On organizing and conducting anti-corruption measures in Federal Grid Company" is the legal basis of anti-corruption monitoring in procurement.

To avoid conflict of interests the following documents were developed:

— The Regulations for Monitoring of Conflict of Interests. It reveals the concept of conflict of interest, scope of emerging and consideration procedure of pre-conflict situations and identified conflict of interests;

— The Regulations for Organization of Work to Declare Information on the Property, Income and Property Obligations of Federal Grid Company and its DSCs Management.

Consideration of possible corruption manifestations applications

In 2011, Federal Grid Company has implemented a specialized telephone "hot line" which accepted applications on facts that require anti-corruption examination.*

During the reporting period the "hot line" has recorded 16 reports of which 8 were anonymous and another 8 were from concrete persons.

Interaction with the Office Prosecutor General of the Russian Federation on the matter of abuse in registering land plots

To protect the interests of the Russian Federation during the implementation of the Company's investment program pertaining to the construction and reconstruction of the electric power facilities, and to eliminate the administrative barriers hindering the documenting of titles to the land plots used for the construction of the UNEG facilities, an Interdepartmental Work Group was established, attached to the Office of the Prosecutor General of the Russian Federation, consisting of the representatives of said Office and of the Company.

The activities of the Interdepartmental Work Group resulted in conducting the procurator's audits in the Republic of Dagestan, Krasnodar and Krasnoyarsk regions, Irkutsk, Nizhny Novgorod, Orel regions and other subjects of the Russian Federation. The audits resulted in opening criminal cases pursuant to Articles 285, 159, 327, and 201 of the Criminal Code of the Russian Federation. An analysis has also been conducted of violations made in the sphere of documenting the title to the land plots during the implementation of the Company's investment program. The analysis was conducted in order to develop suggestions on changing the current land and construction laws of the Russian Federation.

* The Order of Federal Grid Company as of 07.10.2010 No 776 is the legal basis of the activities to consider and resolve applications of employees of Federal Grid Company, contractors and other individuals and legal entities on facts of corruption and examination of the facts in Federal Grid Company.

Interaction with contractors

In 2012, the Company was issued an Order** "On providing information by contractors and amending the contracts" which provides:

— a ban on conclusion any contracts with legal entities (including foreign ones) by Federal Grid Company without the prior submission of the information referred to potential contractors on the whole chain of owners, including beneficiaries (inter alia the final ones), as well as information on the composition of the executive bodies of contractors;

— conclusion of supplementary agreements related to ongoing contracts with legal entities (including foreign ones) in accordance with a form set by the order;

— termination (extinction) of a contract in case of failure of contractor to enter into a supplementary agreement in a form set by the order;

— monthly electronically filing of received information about the owners of contractors by Federal Grid Company to the address of the Ministry of Energy of Russia, Federal Tax Service of Russia and the Federal Financial Monitoring Service in a form set by the Order.

In 2012, employees of the Department of the corporate and anti-corruption compliance procedures improved the order of work with information on the chain of owners of contractors - an automated system "Accounting of the beneficiaries of contractors of Federal Grid Company (AS ABC)" aimed at collection, analysis and storage of information about the owners of contractors was set up.

Efforts to analyze information about the chain of owners of contractors and information contained in the declarations of the Company's management allow employees of the Department to identify and prevent cases of conflicts of interest.

The Company seeks to do business with contractors that support the Anti-Corruption Policy of the Company and run its business transparently and honestly without resorting to corruption schemes. In this regard, the Company finalized (including practical application) anti-corruption clause to be included in all contracts which Federal Grid Company entered into both with legal entities and state and municipal authorities, with the exception of contracts for technological connection.

In 2012, employees of the Department of the corporate and anti-corruption compliance procedures were examined 478 contracts with regard to anti-corruption clause. Section "Anti-corruption clause" was included in the text of 66 contracts being concluded.

** The Order of Federal Grid Company as of 16.01.2012 No 17 issued under the execution of instructions of Prime Minister Vladimir Putin

Preventing corruption. Forming anti-corruption awareness

In 2012, the Company carried out awareness-raising activities aimed at preventing corruption and forming anti-corruption awareness, intolerance of employees, shareholders, the investment community, contractors and administrative bodies to corrupt practices.

In 2012, employees of the Department of the corporate and anti-corruption compliance procedures participated in a numerous of conferences and seminars on the issue of corruption. In particular, Viktoria Nikiforova, the Director for Compliance — Head of the Department spoke at the Fourth Anti-Corruption Summit of Russia and the CIS and the Second St. Petersburg International Legal Forum and reported about the formation and development of Anti-Corruption Policy of JSC Federal Grid Company, anti-corruption activities of the Company and development of compliance procedures, etc.

Participation in substantive initiatives allowed the employees of the Department to improve the draft of Anti-Corruption Policy of the Company, establish a system of compliance, develop a comprehensive system of training and awareness-raising of management and employees of the Company in the field of compliance.

A special place in the fight against corruption is given to prevention of corruption in the Company.

As part of the area educational seminars, trainings, counseling for employees of the Company to ensure a common understanding of anti-corruption policy are held on a regular basis. On the problem in 2012 6 articles were published in the corporate newspaper "United Grid". As part of the Knowledge Day seminar on "Anti-Corruption and Corporate Compliance Procedures" for employees of the executive apparatus, branches and DSCs of the Company was held. Together with the Department of strategic communications develop and put in place social advertising and visual propaganda.

The agreements on compliance with anti-corruption policy to employment contracts of employees of the executive apparatus of Federal Grid Company were developed and signed. Induction training on the provisions of Anti-Corruption Policy and related documents is conducted for all newly hired employees.

In order to explore how workforce understands Anti-Corruption Policy of JSC Federal Grid Company and how measures the effectiveness of its implementation, an anonymous survey was conducted among the employees of the executive apparatus, the branches of Federal Grid Company and also as a pilot survey was conducted in one DSC of Federal Grid Company - JSC TZIUS UES.

Today a special section "Anti-Corruption Policy" is created at the Company's official website, which gives an idea about the goals and objectives of anti-corruption activities, its principles and directions, management structure and objectives of the Department of the corporate and anti-corruption compliance procedures, and also contains links to the full texts of the Company`s official documents on the issue.

In addition, in the section "Anti-Corruption Policy" you can find information about the Company`s activities on observing the norms corporate conduct (compliance with the Code of Conduct), standards of conduct and settlement of conflict of interest.

Subsection "Feedback" propose to undergo survey on anti-corruption, leave your question or share your opinion.

International anti-corruption acts, anti-corruption acts of the Russian legislation as well as organizational and administrative documents of Federal Grid Company to implement anti-corruption policy of the Company are listed in the subsection «Regulatory Framework».

Implementation of Anti-Corruption Policy in the branches and DSCs of the Company

In 2012, as part of Anti-Corruption Policy of Federal Grid Company anti-corruption expertise of organizational and administrative documents and drafts, anti-corruption monitoring of procurement activities, resolution of appeals on cases of corruption of the Company`s employees, contractors and other individuals and legal entities and conflicts of interest management and other activities were carried out in the branches of the Company.

In DSCs of Federal Grid Company anti-corruption legal framework is being improved. In 2012, in the following ten DSCs listed below its own anti-corruption policies, similar to anti-corruption policy of the Company, were adopted:

— JSC Glavsetservice UNEG;
— JSC Mobile GTPP;
— JSC MUS Energetiki;
— JSC RDC FGC UES;
— JSC TZIUS UES;
— JSC Chitatechenergo;
— JSC ESSK UES;
— JSC Electrosetservice UNEG;
— JSC Kuban main grids;
— LLC IT Energy Service.

2013 Plans

Implementing the best Russian and international anticorruption, compliance and risk management practices, the Company continues to actively cooperate with law enforcement agencies, state authorities, the Institute of Law and Comparative Legal Science attached to the Government of the Russian Federation, the Institute of International Accounting and Management, the Transparency International Russia – a center for anticorruption studies and initiatives and the International Compliance Services. The cooperation with these organizations will allow the Company to develop suggestions on introducing changes in the land and construction laws of the Russian Federation, handing them over to the corresponding authorities, and to improve the internal corporate legal framework in the sphere pertaining to the implementation of corporate and anticorruption compliance procedures and to implement new preventive measures within the existing business processes.

Environmental Impact Management

Federal Grid Company of Unified Energy System

Nikolai Shvets, Deputy Chairman of the Management Board

Environmental Impact Management System in the Company and its DSCs

Issues of environmental safety in Federal Grid Company are governed by federal laws of the Russian Federation - "On Environmental Protection", the Water Code of the Russian Federation, "On Air Protection", "On Production and Consumption Waste" as well as by internal organizational and administrative documents - "Environmental Policy of JSC Federal Grid Company", Program on the implementation of the Environmental Policy of JSC Federal Grid Company for 2011-2013, Regulations on industrial environmental monitoring, "Corporate standards of environmental safety of power facilities at all stages of life cycle," and others.

The environmental safety is a key issue among the Company's strategic priorities and is vital for the daily operations of the Company. This is conditioned by the Company's acceptance of the principles of sustainable development and our awareness that we ought to limit the Company's impact on the environment. We also take into consideration new opportunities that lie open for the environmentally-friendly companies. These opportunities include the attraction of investments on international markets, as the investments may become handy for the Company development.

Considering the above, the Company conducts periodical technical and organizational measures intended to improve the Company's environmental friendliness. The technical measures include the replacement of equipment containing hazardous substances, the repair of oil collectors, the furnishing of locations for temporary storage of wastes, and the construction and reconstruction of sewage systems and treatment plants. The construction and reconstruction of the Company's electric power grid facilities involves the installation of new environmentally-friendly equipment, and the implementation of new technologies of laying and construction of electric power transmission lines.

The organizational measures, among others, include environmental training of personnel, the improvement of the existing system of environmental production control, the conduct of environmental audits, and the implementation of the Environmental Management System (EMS). The EMS was successfully implemented and certified for compliance with ISO 14001:2004 in MPTL of North-West. The Company's Executive Body and the MPTL of South were certified in 2011, with supervisory audit of these units conducted in 2012. The audit results confirmed the compliance with the standard.

To additionally improve the efficiency of environmental impact management, the Chairman of the Company's Management Board decided to establish a new structural division of the Company's Executive Body in 2012, meaning a department for the implementation of the environmental policy. The Department is responsible for developing guidelines for the Company's environment protection activities. The Department's other responsibilities include the implementation of the state policy and corporate requirements pertaining to the Company's environmental safety provisions and the implementation of EMS in line with ISO 14000 international standard.

The 2013 plans include:

— The implementation and certification of EMS in MTPL of Center, a branch of the Company, and the maintenance of the optimal operation of EMS within the Company's Executive Body, the MTPL of South and the MTPL of North-West;

— The conduct of internal environmental audits in the branches of the Company;

— The organization of environmental training for managers and specialists in order to comply with the environment protection laws of the Russian Federation, and to improve the environmental awareness of the Company's personnel.

Environmental Policy

The objective of Environmental Policy of JSC Federal Grid Company* is to increase the level of environmental safety of the UNEG facilities and provide reliable and environmentally safe transmission and distribution of electric energy. As part of the Program on the implementation of the Environmental Policy, Federal Grid Company carries out technical and organizational measures to minimize the negative impact of its industrial activities on the environment.

Technical measures:

— replacing equipment which contains hazardous and toxic substances;

— repairing systems and devices of oil receivers;

— organizing places of temporary waste storage;

Organizational measures:

— introducing environmental management system that meets the requirements of the international standard ISO 14001:2004;

— improving current system for self-monitoring and conducting environmental audits;

— carrying out environmental training of personnel.

As part of the implementation of Environmental Policy in 2012 the following environmental measures were taken:

— systems and devices of oil receivers were repaired at 56 substations;

— places of temporary waste storage were organized at 188 substations;

— sewerage systems, waste treatment facilities of domestic and storm discharges were reconstructed at 28 substations.

To improve environmental activity in July 2012 the Company established Department of Environmental Policy Implementation which main objectives are:

— methodological support for environmental activity of the Company and its DSCs;

— implementation of state policy and corporate requirements to ensure the environmental safety of the Company and its DSCs;

— implementation and maintenance of the environmental management system in accordance with the international standard ISO 14001:2004 in the Company and DSCs.

Environmental Management

The procedure for environmental management in the branches of Federal Grid Company is divided into stages of planning**, implementation, monitoring and control action (if necessary, environmental policy may be adjusted). Environment Action Plans of the branches necessarily include the following items:

— implementation and development of the environmental management system (EMS) that meets the requirements of the international standard ISO 14001;

—conducting industrial environmental monitoring and environmental audits;

—carrying out environmental training of personnel;

—developing legal and technical documentation and improving documentation to support environmental activity.

Federal Grid Company carries out phased introduction of the environmental management system (EMS) in MES.

In 2011, EMS was successfully implemented and certified for compliance with the international standard ISO 14001:2004 in the executive apparatus of Federal Grid Company and MES South. In 2012, EMS was implemented and certified in the branch of Federal Grid Company - MES North-West.

In 2012, there were no fines and non-financing sanctions imposed on the Company for noncompliance with environmental legislation and regulations.

* Environmental Policy of JSC Federal Grid Company was approved by the Company`s Board of Directors as of 28 February 2008. On September 23, 2010 Chairman of the Management Board of Federal Grid Company Oleg Budargin approved the Program on the Implementation of Environmental Policy of JSC Federal Grid Company for 2011-2013 and on 30 December 2011 targeted quantitative environmental indicators of Federal Grid Company for 2013-2015 were approved.

** Updated standard forms of the Environment Action Plan and Report on its performance for the branches of Federal Grid Company - MES approved by the Order of Federal Grid Company as of 28.12.2012 No 903r.

Key Indicators of the Environmental Impact

Emissions into the atmosphere of pollutants

Transmission of electricity as core activity of Federal Grid Company has a much lower impact on the environment in comparison with other sectors of electric power industry.

Power grids specifics related to environmental impact is that emissions, discharges and waste are not the result of the production process, but arise from general economic activity and are characterized by a very low level relative to the maximum permissible values.

In 2012, Federal Grid Company`s indicators of negative impact on the components of the environment were:

— the total amount of emissions into the atmosphere — 114.7 tons;

— the volume of discharges to surface water bodies — 88.34 thousand m^3;

— the amount of I-IV hazard class waste generated — 13.3 thousand tons.

In the process of production activity Federal Grid Company uses gas-insulated equipment equipped with accidental release sensors. By that the Company doesn`t keep account of the volume of sulfur hexafluoride added to the equipment in the event of losses. Under the terms of the International Electrotechnical Commission (IEC) sulfur hexafluoride leakage may be up to 0.5% per year.

In 2012, there were no relevant transformer oil spills.

Transportation of materials and employees to organize and execute works is carried out at short distances and does not have significant impact on the environment.

Indirect emissions of greenhouse gases in the activities of the Company are formed by the loss in power grids and electricity consumption for own needs of substations.

In 2012 equivalent emissions of CO_2 that corresponds to power losses in Federal Grid Company`s grids and electricity consumption for own needs was 11,712.35 thousand tons. In 2011, this indicator was 12,055.93 thousand tons*.

Other relevant indirect greenhouse gases emissions are absent.

Ozone-depleting substances are absent in the Company's emissions.

* In calculating indirect emissions and the equivalent emissions of CO_2 a grid average emission coefficient in 2007 (511 g / kWh), established by «Guidelines for specialized technical documents in greenhouse gases trading» was used.

Air Emissions of NOx, SOx and Other Relevant Pollutants by Type and Weight, tons

Total emissions of air pollutants,	2011	2012
Total, including:	90.31	114.53
solid	26.68	5.74
gaseous and liquid	63.63	108.79
of which:		
sulfur oxide	2.67	0.65
carbon oxides	24.78	27.35
NOx	5.24	3.09
hydrocarbons (without volatile organic compounds)	7.52	53.24
volatile organic compounds	23.41	18.47

Total emissions of pollutants into the atmosphere in 2012 increased due to an increase in emissions of gaseous and liquid pollutants into the atmosphere, which in turn is driven by the valuation of a significant number of stationary emission sources (transformers, welding stations, garages, workshops, etc.) which have not been included before in the draft emission limits and considered in the overall calculation.

Generation of waste

Quantitative indicators of waste generation are presented in the table "Total weight of waste by type and disposal method".

Total Weight of Waste by Type and Disposal Method

Waste generated (thousand tons)	2011	2012
Total, of which	12.87	13.29
I hazard class	0.001	0.05
II hazard class	0.02	0.02
III hazard class	0.37	0.56
IV hazard class	4.14	5.07
V hazard class	8.34	7.59
Transferred to specialized institutions for further recycling or disposal	4.08	4.44
Deposited in landfills	8.79	8.71

Total volume of waste of I-IV hazard classes generated in 2012 increased slightly compared with 2011. However, it should be noted that in 2012, the amount of waste deposited in landfills decreased due to growth in the amount of waste transferred for recycling or disposal.

The Company's enterprises in conducting its activities do not transport, import or export waste. All types of waste generated from production activities of the Company are transferred to specialized organizations which operate in the territory of the Russian Federation for further recycling, utilization or final disposal. The main condition to conclude contracts with contractors that accept the Company`s waste is that they have a license for decontamination and waste disposal issued by the authorities of the Federal Service for Supervision of Natural Resources that meets the requirements of applicable environmental legislation. Certification for compliance with the International Standard ISO 14001 in the Russian Federation is a voluntary procedure and, according to the Company's managers, requirement for contractors to have international certificate is redundant.

In addition, in the processes associated with the reception, transmission and distribution of electricity the Company`s enterprises do not use recycled waste and reuse waste, except for reuse of refined transformer oil. However, the volume of oil reused in total amount of waste generated at the Company's enterprises is very insignificant, so in 2012 it was 0.32%.

Federal Grid Company has not produce any products which should be packaged therefore the Company does not use packaging materials.

Electromagnetic effect

Health standards and regulations adopted in the Russian Federation contain stringent standards on the influence of electric and magnetic fields on biological objects. The basic principle to protect public health against electromagnetic fields of power transmission lines is to establish sanitary protection zones (SPZ) and roadside clear zones for UNEG facilities. The size of buffer zones are defined in accordance with the sanitary-epidemiological norms of permissible noise levels, electromagnetic radiation and other physical factors at the external boundary of the sanitary protection zone. All the Company`s facilities are designed, built and operated in full compliance with the SanPiN 2.2.1/2.1.1.1200-03 "Sanitary protection zones and sanitary classification of enterprises, buildings and other facilities. New edition". This SanPiN defined boundaries of sanitary protection zones for high-voltage lines (HV lines):

— 20 m for the 330 kV HV line;

— 30 m for the 500 kV HV line;

— 40 m for the 750 kV HV line;

— 55 m for the 1150 kV HV line.

For the substations under construction and reconstruction SPZ boundaries are defined in the design documentation.

The impact on flora and fauna, soil and ground

The medium-term program on the implementation of Environmental Policy of JSC Federal Grid Company provides for including the introduction of environmentally friendly technologies for the transmission of electricity, reducing the burden on the environment:

— the use of tapered multi-faceted steel poles instead of lattice to save occupied land space that is especially important in case of route of lines on protected areas;

— construction of underground cable lines to free up land, preserve the existing land space and avoid negative impacts on the environment;

— the use of gas-insulated switchgears (GIS), which are placed in enclosed buildings, that significantly reduces its impact on the environment and saves land space occupied by the substations;

— full automated technological processes to operate power facilities, which allow remote service of facilities and excludes the necessity to construct water pipeline, canalization and waste utilization.

Electric grid companies have impact on the state of the vegetation mainly in constructing power lines, when cutting glades in a wooded land and clearing vegetation along power transmission lines.

Clearing vegetation along power transmission lines is performed manually, mechanically and with the use of herbicides permitted for use in the Russian Federation which do not have a negative impact on the environment.

Chemical means of clearing will not apply in specially protected areas and in water protection zones.

In 2012, the amount of clearance was as follows:

— manual clearing – 28,613.0 ha;

— mechanized clearing – 6,701.9 ha;

— chemical clearing – 4,464.0 ha.

Branches of Federal Grid Company carry out recovery of vegetation and terrain in accordance with the re-cultivation of disturbed soil projects. In particular, as part of construction of facilities of the 2012 Olympic Games in Sochi a joint protocol to conserve ecosystems in the Mzymta river basin was signed between the main organizations-participants of construction. Federal Grid Company takes measures to protect the cable line and technological road to the Mzymta substation from mudflow masses with the use of "McCaffery" gabions overlaid on the adjacent slope and construct gabions and mudflow galleries.

In December 2012 compensatory measures for the removal of topsoil for the Mzymta substation on the territory of the Sochi National Park were executed. It includes the recovery of Sochi administration costs on execution of work under the plan to restore ecosystem of the Sochi National Park disturbed in the course of construction of Olympic facilities.

In most cases, compensatory measures are carried out at the end of construction, reconstruction and modernization of the power grid facilities. Compensatory measures are provided for in the design documentation. Issues of designing, construction, reconstruction and modernization in the Company are within the competence of the subsidiary JSC TZIUS UES.

Completed facilities are transferred to Federal Grid Company for operation only after all compensatory measures provided for in the project documentation are executed, but this information is not available to environmentalists of the branches of Federal Grid Company.

JSC TZIUS UES does not keep statistics on all executed compensatory measures.

Federal Grid Company takes necessary measures to reduce the impact of power grid facilities on the species composition of animals. The Company`s Technical Policy provides for the following measures:

— the use of self-supporting insulated and protected wires to avoid bird deaths;
— performance of measures at the power grid facilities to protect wildlife (equipment of HV lines` towers with special devices to prevent birds nesting on the structural elements of the towers and the use of deterrents and bird control devices, etc.).

It should be noted that the total number of species listed in the IUCN Red List and national conservation species list habitats of which are in specially protected areas affected by operations of the Company is 156 species including plants — 62 species, mushrooms — 3 species and animals — 91 species.

At present, the Company keeps statistics on birds / animals deaths only on the cases that led to blackouts and other technological disturbances.

Given the large number of remote production facilities and the overall significant length of the Company`s grid today it is not possible to keep full statistics on bird deaths.

The Department of the implementation of environmental policy plans in 2013 to introduce mandatory reporting for the Company's branches on activities aimed at protecting wildlife.

The usage of water

Federal Grid Company`s enterprises` discharges and runoffs to water bodies are insignificant and have not significant impact on the biodiversity of water objects.

The usage of recycling water is used at several substations of the Company. 400 kV Vyborgskaya substation is equipped with the largest water recycling system with volume of 4.85 thousand m^3.

Total volume of reusable water at the Company in 2012 was 27.5 million m^3, which exceeds more than 20 times the total volume of water used for household and drinking and industrial needs.

Total Water Withdrawal by Source, thousand m^3

withdrawal and receiving water	2011	2012
total,	1,390.016	1,317.37
including:		
from surface sources	93.000	78.63
from groundwater sources	774.280	687.07
from other sources (municipal water supply systems and private providers of bottled drinking water)	522.736	551.67

Total Water Discharge Indicating the Quality of Waste Water and the Receiving Facility, thousand m^3

The volume of waste water discharges	2011	2012
Total, including	810.022	1,156.97
Water disposal to surface water facilities, total	62.74	88.34
including:		
without water treatment	6.70	0.00
insufficiently treated	45.78	76.21
treated to standard quality	0.00	12.13
water diposal to terrain, total	747.28	1,068.63
including:		
without water treatment	538.55	854.3
insufficiently treated	0.000	56.84
treated to standard quality	0.000	157.49

The growth of total discharges is due to an increase in precipitation in 2012 and disposal of it to terrain.

The decline in water consumption compared with 2011 due to the implementation of measures for maintenance, repair and reconstruction of water supply facilities in the branches of federal Grid Company - MES and PMES. In addition the Company`s enterprises have no significant impact on water sources used. Representatives of the environmental community the Company`s impact was assessed as negligible.

Environmental protection costs

Total Costs and Investments in Environmental Protection, by Types, RUR thousand

Expenses and investments in environmental protection	2011	2012
Fee for a negative impact on the environment, total	6,611.20	7,119.27
including:		
for emissions of pollutants into the atmosphere:	115.10	43.76
standard	86.21	10.35
in excess of the standard	28.89	33.41
for the discharge of pollutants into water bodies:	1 387.47	2,505.98
standard	524.68	1,603.71
in excess of the standard	862.79	902.27
for waste disposal:	5,108.63	4,445.40
standard	1,934.64	2,494.59
in excess of the standard	3,173.99	1,950.81
Penalties for violations of environmental legislation	0.00	0.00
Investment in fixed assets allocated for environmental protection:		
planned	352,197.78	113,951.44
actual	107,549.80	82,120.72
Current costs on environmental protection, total	47,467.86	67,788.33
including:		
on the protection of water bodies	20,295.45	16,506.36
on air protection	1,562.76	4,258.79
on the protection of land resources from production and consumption waste	21,783.65	35,644.97
on recultivation of land	0.000	0.00
on the implementation and certification of environmental management systems	3,826.00	3,917.75

Fee for a negative impact on the environment as a whole for Federal Grid Company in 2012 increased due to the commissioning of new facilities, standardization of new previously unrecorded sources of emissions and discharges. However, it should be noted a significant reduction in fees in excess of the standards by 38% compared to 2011, resulted from the receipt of necessary permits for almost all branches of the Company.

Environmental development

Staff Training Center of the branch of Federal Grid Company — MES North-West was recognized winner of the All-Russian competition for environmental development and energy efficiency GreenAwards in the category "Green Office: up to 2 thousand sq. m.". The competition results were announced at the VI International Investment Forum on Real Estate PROEstate 2012 in St. Petersburg.

Sustainable development of territory, energy efficiency, efficient use of water, materials and resources, internal environment quality, innovations in design, specific characteristics and creation of the conditions for alternative modes of transportation (bikes, etc.) were the main criteria for selection in the category «Green Office: up to 2 thousand sq. m.».

GreenAwards competition is held annually since 2007. Its main goal is to spread the successful experience in design and implementation of resource-efficient and environmentally friendly projects in Russia and the public recognition of the contribution of builders, developers and architects in the development of "green" construction.

Company`s Initiatives in the Field of Protection of the Environment

Studies on the Company`s impact on biodiversity

The issue of power grid companies` impact on biodiversity is poorly studied. Since 2009 Federal Grid Company carries out environmental monitoring in the area of the passage of 500 kV HV line in the national park Smolny (the Republic of Mordovia), located in the operation area of Nizhegorodskoye PMES. The aim of monitoring is the long-term flora and fauna observation in the impact area of 500 kV HV line, impact degree assessment of 500 kV HV line on wildlife objects and development of recommendations to prevent their deaths as well as rehabilitation and long-term development of ornithological complexes in the area of HV lines.

As a result of these monitoring studies carried out in 2009-2012, significant fluctuations in species diversity and abundance of birds in the area of HV line were registered.

In areas immediately adjacent to the routes of 500 kV Ulyanovskaya - Northern and Ulyanovskaya - Southern HV lines, the following events, most notably affecting the dynamics of terrestrial ecosystems were registered:

— climatic and phenological variations of different seasons (years), primarily variations of surface soil moisture and development dynamics of herbaceous and shrubby plant communities;

— felling and thinning woody and shrub undergrowth in some areas of 500 kV HV lines routes;

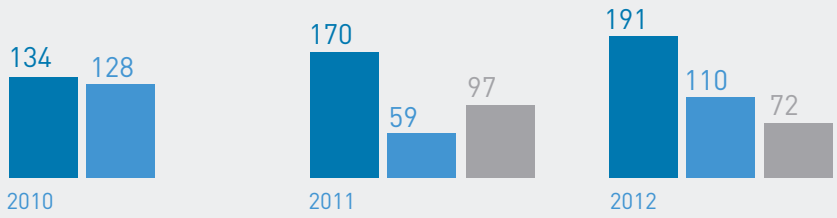
— forest fires and they long-term transformation of plant formations caused by it.

Environmental auditing and training of employees

In 2012, annual inspections were carried out as part of industrial environmental monitoring (hereinafter - IEM) in all branches of Federal Grid Company. In the course of IEM compliance with environmental legislation, environmental documentation completeness and the technical condition of environmentally protected sites were verified. The problems in organizing and carrying out environmental activities in the branches were analyzed. Based on the results of IEM programs of activities that improve environmental performance both the branches and the Company were developed.

Environmental training of employees is carried out every year in Federal Grid Company:

Environmental Training by Areas, Persons

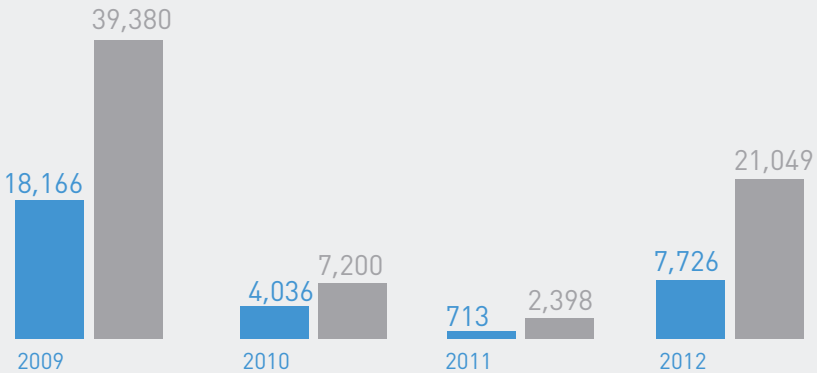


Disposal of equipment containing trichlorobiphenyl

Federal Grid Company yearly implemented measures to replace and dispose equipment containing persistent organic pollutant - trichlorobiphenyl, which is a type of polychlorinated biphenyls*. Replacement of equipment containing trichlorobiphenyl is performed as it is worn as well as part of works in reconstructing and modernizing substations. Dismantled capacitors are transferred to specialized organizations for utilization.

* In the framework of the Stockholm Convention, signed and ratified by the Russian Federation, according to which the Parties shall cease, "... the use of polychlorinated biphenyls in equipment (i.e. transformers, capacitors or other receptacles containing liquid stocks) by 2025"

The cost and quantity of equipment with TCB transferred to neutralization



Construction and reconstruction of sewage systems, water treatment facilities, household and storm water discharges. Protection of water resources

The Company`s enterprises include measures in the annual water resources environmental action plans:

— to execute the terms of license agreements entitled to use subsoil (extraction of fresh groundwater) - constructing and maintaining water sources sanitary protection zones, conducting analytical monitoring of groundwater quality and necessary hydrogeological works;

— to repair (reconstruct) water supply and sewerage systems, treatment facilities for domestic and storm water discharges and artesian wells;

— to repair (reconstruct) oil receivers systems and devices to prevent spills and prevent transformer oil from entering soil and water reservoirs;

— on analytical monitoring of condition of wastewater.

In 2012, the Company`s water consumption decreased compared to 2011, which is related to technical maintenance, repair and reconstruction of water supply systems in the Company's branches (MES and PMES).

Energy saving

The Program to reduce electric energy losses in the Unified National Energy Grid in 2012 was developed under the Program for energy conservation and enhancing energy efficiency of Federal Grid Company for the period 2010-2014 and included the following three key areas:

— optimizing circuit and operating parameters under service conditions and operational management of power grids;

— reducing energy consumption for own needs of substations;

— construction, reconstruction and development of power grids, commissioning of energy-saving equipment.

As part of work to optimize circuit and operating parameters under service conditions and operational management of power grids the maintenance of optimum conditions for reactive power and voltage, disconnection of electric grid equipment (transformers and HV lines) in the modes of small loads, reduction of maintenance duration and repair of the basic grid equipment were ensured.

As part of measures aimed at reducing the electricity consumption for own needs of sub-stations, the following activities were carried out: optimization of work duration and the number of activated cooling fans of transformers and auto-transformers, optimization of heating and lighting equipment work of control buildings of substations, installation of energy-saving lamps and lighting fixtures for outdoor switchgear, enhancing energy efficiency of buildings etc.

The measures to reduce energy consumption in 2012 resulted in saving 214.87 million kWh of electricity.

Measures to construct, reconstruct and develop electric power grids as well as commission energy-saving equipment included:

— installation of reactive power compensation devices;

— replacement of overloaded transformers and installation and commissioning of additional power transformers at existing substations;

— work to optimize the load of electric power grids via construction of overhead lines and substations.

As a result of the implementation of measures aimed at reducing the losses in the UNEG, at the end of 2012, the effect achieved was 214,019.1 thousand kWh.

2013 Environment Action Plan

The main tasks in the field of environmental activity of Federal Grid Company in 2013 are:

— introducing and certifying an environmental management system which meets the international standard ISO 14001:2004 in the branch of Federal Grid Company - MES Center and maintaining optimal functioning of the environmental management system in the executive apparatus of the Company, MES South and MES North-West;

— disposal of dismantled equipment containing trichlorobiphenyl;

— planning and implementing technical and organizational environmental measures;

— conducting internal environmental audits in the branches of Federal Grid Company;

— organizing environmental training for management and personnel.


ФСК ЕЭС
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Федеральная
Сетевая Компания
Единой
Энергетической Системы
СОЗДАНИЕ ИНТЕЛЛЕКТУАЛЬНОЙ СЕТИ -

Stakeholders Relations

Federal Grid Company of Unified Energy System

Stakeholders Relations in 2012

The Company's infrastructural role in national economy makes it a subject to multifaceted and multi-tasked relationships with a broad circle of stakeholders. The major stakeholders include the state as the main shareholder, the source of tariff regulations and the customer of the reliable uninterrupted functioning of backbone grids. Other stakeholders include regional authorities, energy market players, consumers, the investment community, the domestic and foreign manufacturers of electric equipment, contractors, environmental organizations and the Company's staff.

Taking into consideration that the interests of different groups of stakeholders interact with the interests of the Company, Federal Grid Company has developed a fundamental principle of balancing the public welfare and the Company's economic expediency as early as during the first years of the Company existence.

The approach described above permitted the Company to efficiently fulfill its main mission, consisting in the provision of reliable uninterrupted supply of electric power to consumers, while maintaining a constructive dialogue with the public on the major decisions pertaining to the UNEG development, as such dialogue is possible only if the Company is transparent.

Since then the Company's interaction with stakeholders evolved in many different ways. The Company cooperates with the Russian Ministry of Energy and the Federal Tariff Service, with the Company experts participating in the development of law drafts regulating the energy market. The Company forms a pool of agreements with regional authorities to develop the backbone infrastructure in the regions. Individual agreements govern the relationships with almost all energy producers, as well as with major transactions, thus allowing to coordinate the facility commissioning programs. The agreements with the leading domestic and foreign equipment manufacturers allow the Company to localize the manufacture of the required equipment on the territory of Russia, implementing innovative developments, forming SMART grid clusters, and implementing the programs for equipment modernization and import replacement. The interaction with industry-specific higher education institutions supplies the Company with talented employees, while allowing the students to be confident about their future.

The Company maintains its public activities at high level, being a participant and co-organizer of major events, including the Saint-Petersburg Economic Forum and many regional industry events dedicated to the development of innovative activities, anticorruption control, and social policy, etc.

The stakeholder dialogues conducted during the preparation of the Company's annual non-financial reports are considered to be one of the most successful forms of interaction. A dialogue of the Company with stakeholders titled "Human Capital Management in Federal Grid Company" took place on April 5, 2013. The public hearing of the draft of the 2012 social Report took place on April 26, 2013. During the events the stakeholders made over 50 suggestions concerning the text of the Report and the Company operations in 2013-2014. We treat these suggestions as stakeholder recommendations to improve the Company's transparency and information openness.

Oleg Mikhailov, Head of the Strategic Communications Department

Personnel communications

As part of the celebration of the 10th anniversary of the Company in 2012 there was a series of measures aimed at enhancing the corporate culture, supporting the continuity of generations of employees of power grid complex, forming a respectful and interested attitude to the profession of power engineer, including: edition print-run of music CDs "Favorite songs of Federal Grid Company"; creation of special section on the corporate intranet portal devoted to the anniversary of the Company; edition of commemorative book of pictures "Federal Grid Company. Ten years ", which presentation was brought together representatives of the Government of the Russian Federation, the State Duma, the Court of Accounts, the Company`s clients and partners.

In addition, the Company's employees held contests of children's drawings, stories, photos and video works about family dynasties of Federal Grid Company. The "Dynasty" Program which firms labor traditions and increases loyalty of employees, is implemented in the Company since 2010. In 2012, under this program the following events were organized:

— excursions of the Company`s employees` children to production sites;

— children's drawing contest "Unified Grid - a single country", whose participants were children of employees of Federal Grid Company and IDGC Holding and SDCs of IDGC Holding;

— a New Year party for children of employees of the executive apparatus of the Company and DSCs, and New Year's events for children of employees of the branches (MES and PMES);

— On December 22 solemn presentation of government and industry awards and celebration of the best labor dynasties of Federal Grid Company featuring the Minister of Energy of the Russian Federation A. V. Novak

At the beginning of April 2012 in Sochi Winter Spartakiada Games of employees of power grid complex was held. Sports events were held at sports grounds of the upcoming 2014 Sochi Olympics.

Spartakiada was the first joint corporate event in the framework of forming a single energy complex and the most massive Spartakiada in the history of sports and athletics competitions in electric grid companies - about 650 employees was taken part in this event. 24 teams, previously passed the regional qualifying rounds, competed for the right to be the best of the best. Nine teams represented the executive apparatus and the branches of Federal Grid Company, twelve teams represented the distribution grid complex (IDGC) and three teams of students of power engineers of the Moscow Power Engineering Institute, Ivanovo State Power University and the North Caucasus Federal University were also involved.

In June 2012, in the Moscow Region V Summer Spartakiada Games of Federal Grid Company was held. More than 200 employees of the Company take part in sporting events.

In October 2012 the second chess tournament in memory of M.M. Botvinnik among power engineers, organized jointly by Federal Grid Company and STC FGC UES, was held. The tournament brought together 26 teams from the executive apparatus, branches and DSCs of the Company, as well as other local electric power companies.

In June 2012, a traditional Doors Open Day for the children of employees of Federal Grid Company was held.

During 2012 an information campaign aimed at raising awareness of employees of Federal Grid Company on social policy and the provision of social guarantees and benefits of the year was conducted in intra-media (newspaper "Unified Grid", an internal portal, information boards).

In February 2012, the intranet portal section "Question the Chairman of the Management Board" with the possibility of anonymous access of users was created.

There is the section "Questions & Answers", which publishes the answers of the heads of structural divisions of the Company on issues related to production activities, corporate life and social policy. Each employee can send e-mail to vopros-otvet@fsk-ees.ru. In 2012, a number of questions was received; an answer was given on each question.

Veterans communications

Each year, the Company hold celebration events for veterans to the holiday dates (Victory Day, Power Engineer's Day), which involved more than 300 veterans of the Company and the Board of Veterans of Energetic. In addition, cultural program included visits to the best theaters and museums of Moscow is organized twice a year for veterans. Besides, the Company is actively promoting the work of the Board of Veterans of Energetic.

On April 21 on the eve of Victory Day, more than 1,500 employees of the executive apparatus, MES Center and DSCs with families and children, as well as the Company`s veterans took part in volunteer clean-up of the territory of memorial complex "Poklonnaya Gora" (Moscow) and laying of the Power Engineer Alley. Upon completion of work, the veterans were honored and flower-laying ceremony at the Eternal Flame was held.

Consumers communications

In June 2012 Federal Grid Company and Polyus Gold signed a cooperation agreement on the development of electric power grid infrastructure of the Irkutsk Region. Implementation of the electric power grid construction project, referred to in the agreement will contribute to the elimination of security limitations, power and energy deficits in Bodaibo district of the Irkutsk Region and ensure reliable power supply to Polyus Gold`s enterprises located in the region, in particular gold deposits Zapadnoe, Verninskoye, Pervenetz and Chertovo Kory to, sector Mdvezhii as well as 94 of alluvial deposits in the river basins of Vitim, Zhuya, Bolshoy Patom and Maliy Patom.

On June 22, 2012 Federal Grid Company in cooperation with the Governments of the Republic of Sakha (Yakutia) and the Irkutsk Region, Fund for Development of the Far East and the Baikal region, Polyus Gold, DVEUK signed a Cooperation Memorandum on the formation and gradual organization of implementation of construction project of 220 HV double circuit line Peleduy - Chertovo Koryto - Sukhoi Log - Mamakan from 220/110/6 kV Chertovo Koryto substation and 220/110/35/6 kV Mamakan substation.

On June 21, 2012 at the St. Petersburg International Economic Forum a Cooperation Memorandum in the field of improving the instruments which forms energy policy and promoting the spread of energy efficient technologies in Russia between the International Energy Agency, Federal Grid Company and EFA was signed.

In September 2012 Toshiba Corporation, Federal Grid Company and Energostroy-MN signed an agreement on the implementation of a project to create a highly efficient energy infrastructure in the North Caucasus Federal District. Under the Agreement, a Working Group was established (Protocol on the establishment of the Working Group No 000000220175 as of 12.11.2012 under the Agreement on the implementation of the project to create a highly efficient energy infrastructure in the North Caucasus Federal District).

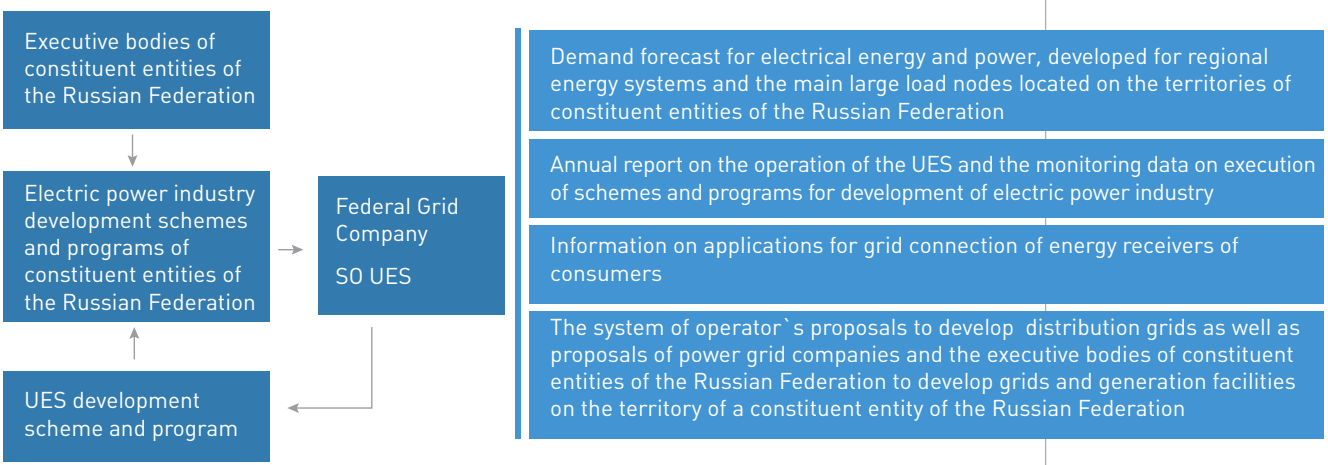
In addition, the Company entered into:

1. Cooperation Agreement with KESC in the Rostov Region.
2. Cooperation Agreement with KESC in the Krasnodar Region.
3. Cooperation Agreement with Lafarge Cement and the Government of the Kaluga Region.
4. Cooperation Agreement with Aqua Story TEC.
5. Cooperation Agreement with Kuznetsk Ferroalloys.

Government relations

One of the main goals of the Company in cooperation with the regional executive authorities in Federal Grid Company`s operation areas is the coordination of schemes and programs for long-term development of electric power industry of subjects of the Russian Federation. In the course of interaction activities there are information support for the public authorities, coordination of plans for fuel and energy complex, transport infrastructure and programs of territorial planning. In addition coordination of the development of backbone and distribution grid infrastructure is conducted.

The Interaction in Developing Schemes and Programs to Develop Electric Power Industry of Constituent Entities of the Russian Federation



The branches of Federal Grid Company, MESs, play a huge role in the process which operate under the Order of Federal Grid Company as of 26.07.2010 No 534 "On the interaction between Federal Grid Company and the executive bodies of constituent entities of the Russian Federation on issues of the development of schemes and programs to develop electric power industry of constituent entities of the Russian Federation.

Currently, there are cooperation agreements with the following constituent entities of the Russian Federation:

1. St. Petersburg
2. The Amur Region
3. The Chechen Republic
4. The Kaluga Region
5. The Karachay-Cherkess Republic
6. The Khanty-Mansiysk Autonomous District - Yugra
7. The Leningrad Region
8. The Moscow Region
9. The Nizhny Novgorod Region
10. The Novosibirsk Region
11. The Novgorod Region
12. The Omsk Region
13. The Republic of Buryatia
14. The Republic of Dagestan
15. The Republic of Ingushetia
16. The Republic of Sakha (Yakutia)
17. The Tomsk Region
18. The Tula Region
19. The Tver Region
20. The Smolensk Region
21. The Stavropol Region
22. The Sverdlovsk Region
23. The Zabaikalye Region

In October 2012, a working meeting between the Chairman of the Management Board of Federal Grid Company Oleg Budargin and the Governor of the Samara Region Nikolay Merkushin was held. Participants of the meeting discussed plans of Federal Grid Company to improve the reliability, modernization and development of transmission facilities taking into account the interests of the Samara Region. The participation of Federal Grid Company in designing and developing grid infrastructure to provide electricity to facilities designed for the FIFA World Cup in 2018 was also discussed at the meeting.

In November 2012, the Chairman of the Management Board of Federal Grid Company Oleg Budargin held a meeting with the governor of the Kemerovo Region Aman Tuleyev. The head of Federal Grid Company said at the meeting that the Company plans to invest 7 billion rubles in the development of power grid complex of Kuzbass. The result of investment should be the reconstruction and modernization of existing UNEG facilities and an increase in transformer capacity by 50% and an increase in the length of power transmission lines by 10%.

In November 2012 the development of power grid complex in the Tver Region was discussed at the meeting of the Chairman of the Management Board of Federal Grid Company Oleg Budargin with the governor of the Tver Region Andrei Sheveliov. The event was also attended by managers of Federal Grid Company, MES of the Centre, IDGC of the Center and representatives of the Government of the Tver Region. One of the main problems in implementing new investment projects in the Tver Region is the lack of capacity. The Governor Andrei Sheveliov also noted the need to bring in proper condition and to ensure uninterrupted operation of distribution grids of the western zone. Oleg Budargin said that Federal Grid Company will soon consider a decision to develop the Program for power grid complex development of Upper Volga taking into account the economic development plan of the Tver Region.

Interaction with power grid companies

In September 2012, a working meeting of the heads of Federal Grid Company and the State Grid Corporation of China (SGC of China) was held in Moscow. During the negotiations the possibility of current and future science and technology and innovation cooperation and the joint implementation of large-scale international projects were discussed. In particular, representatives of SGC of China addressed a proposal to Federal Grid Company for a joint development of a feasibility study to construct AC extra-high voltage power transmission line and DC ultra-high voltage power transmission line on the territory of the Russian Federation, including the development of options to increase electricity supply from the Russian Federation to the People's Republic of China.

In October 2012, a delegation of Federal Grid Company paid a visit to USA at the invitation of the Ministry of Energy of the United States of America. During the visit, a meeting with the leadership of the U.S. Department of Energy was held. At the meeting a dialogue between the head of Federal Grid Company and the Minister Steven Chu launched in 2011 was continued. In the framework of the working visit a meeting of the delegation of Federal Grid Company with the management of U.S. power grid company «PJM» was also held. In the course of it both parties exchanged experiences of power grid complex development and considered the principles of centralized energy supply zones development and improvement of the reliability of electric power grid and the issues of comprehensive substantiation of construction of powerful extra and ultra-high voltage transmission lines. Participants also discussed the experience of the implementation and operation of technologies "smart grid" - "digital substations", controlled transmission lines and electrical energy storage devices for high power.

In October 2012, in Moscow within the framework of the International Energy Forum UPGrid Federal Grid Company and JSC United Energy Company (UEC) signed a cooperation agreement in the field of implementation of intelligent technologies. The companies plan to implement a set of measures to design, operate and repair transmission facilities of Moscow as part of creation of Russian intellectual power grid system.

In November 2012 representatives of Federal Grid Company discussed with Iberdrola Engineering & Construction, one of the world's leaders of electric power industry, various issues of future cooperation, including in the field of introduction of innovative solutions in the power grid sector.

The List of Existing Agreements (Memorandums) on Cooperation, Information Exchange and Implementation of Joint Projects in the Field of Scientific and Technical Cooperation:

1. Agreement on the implementation of a project to create a highly efficient energy infrastructure on the territory of the North Caucasus Federal District, concluded between Federal Grid Company, Energostroy-MN and Toshiba Corporation
2. Protocol on the establishment of a working group under the Agreement on the implementation of a project to create a highly efficient energy infrastructure on the territory of the North Caucasus Federal District concluded between Federal Grid Company, Energostroy-MN and Toshiba Corporation
3. Agreement on the transfer and protection of information classified as commercially confidential concluded between Federal Grid Company, NRU HSE, Fund Foresight and EnergoFichtner
4. Agreement on information exchange concluded with Institute EnergoSetProekt
5. Memorandum of Understanding between the International Energy Agency, Federal Grid Company and EFA
6. Agreement on scientific and technological cooperation concluded with the Company Hitachi Ltd.

Shareholder and investor relations

In 2012, the Company's management has been actively involved in investment conferences and forums (Adam Smith, the APEC summit, "Russia Calls!" etc.) and met with representatives of stock exchanges and analysts of investment funds.

In addition in the reporting year two roadshows were held. The first roadshow was held in April in London, Zurich and Geneva, and was devoted to the Company's 2011 financial results under IFRS. The second roadshow was held in November following the publication of IFRS for the 1st half of 2012. Meetings with international investment funds including Blackrock, Charlemagne Capital, Baring AM, JP Morgan AM, Nomura AM, Pictet, T Rowe Price, UBS, Fidelity, Pioneer Investments, Renaissance Investment Management, HSBC Global Asset Management, Credit Suisse were also held.

In June 2012, the Company held a meeting with minority shareholders - individuals as part of preparation for the Annual General Meeting of Shareholders.

In September 2012 Federal Grid Company entered the British community on Investor Relations to enhance cooperation with foreign partners and promote the Company at the international level.

In October 2012, the Chairman of the Board of Directors of Federal Grid Company Ernesto Ferlenghi participated in the second Russo-European Economic Forum "Investments in modern Russia. IPO, stocks and bonds", held in Milan (Italy). The forum, organized by the investment and finance company General Invest and the Stock Exchange MICEX-RTS, was attended by the heads of more than 400 large enterprises, investment companies and banks.

In November 2012, delegation of Federal Grid Company headed by the Chairman of the Management Board Oleg Budargin made an official visit to the London Stock Exchange (LSE).

The Company's active work in the field of investor relations was highly appreciated by the investment community:

— in July 2012 Federal Grid Company entered the top 5 best large-cap companies according to the IR Magazine.

— in October 2012 the world's leading credit rating agency Standard & Poor's affirmed the long-term credit rating of Federal Grid Company of BBB on the international scale of the investment, the outlook on the rating is "stable".

— in November 2012, the annual financial statements of Federal Grid Company was awarded the first place for the quality of preparation and disclosure of information among 100 largest Russian companies for 2011 by the rating agency "Expert RA".

— in December Federal Grid Company has received award the "Issuer of the Year" according to the news agency Cbonds.

Other activity in the field of IR was conducted on the basis of the approved "2012 Action Plan for Cooperation with Shareholders and Investors (IR plan)".

To obtain all necessary information there is a section «For shareholders and Investors» on the corporate website for shareholders and investors of Federal Grid Company.

Participation in Conferences, Forums and Roundtables

In February 2012 Federal Grid Company participated in the IX Economic Forum in Krasnoyarsk, the largest economic and cultural center of Central and Eastern Siberia. Deputy Chairman of the Management Board of Federal Grid Company Roman Berdnikov presented the results of Federal Grid Company to modernize and update the UNEG in 2011 and promising directions in the development of the trunk power grid sector both at the federal level and in the regions of Siberia and the Far East.

In June 2012, the branch of Federal Grid Company - Backbone Electric Grids (MES) South participated in the second Dagestan Economic Forum, held in Kaspiysk. The event was attended by the heads of the subjects of the North Caucasian Federal District (NCFD) and the South of Russia, heads of major Russian companies, as well as leading scientists and experts, businessmen, heads of major international companies in Austria, Italy, Hungary, Turkey, Moldova, the Czech Republic, Azerbaijan, Turkmenistan, Iran, Kazakhstan, the Russian Federation and the United States of America - about 1,300 participants. The main theme of this year's forum was to find the most effective tools for social and economic development of the Republic of Dagestan and the North Caucasus, including the development of electric power grid infrastructure to ensure economic development of NCFD.

In June 2012 as part of the St. Petersburg International Economic Forum (SPIEF-2012) Federal Grid Company conducted second round table devoted to issues of creation of energy system with intelligent power grid in Russia, called "Smart Grids - the Projects of the Future". Roundtable participants discussed the progress of the project to create a "smart" power industry, including backbone power grid of a new generation. The event was attended by Assistant to the President of the Russian Federation Arkady Dvorkovich, the Chairman of the State Duma Committee for Energy Yury Lipatov, the Chairman of the Management Board of Federal Grid Company Oleg Budargin, heads of major Russian and foreign energy and technological companies, including, Alstom, Hyundai Heavy Industries, American Superconductor, Rostelecom as well as scientists and authoritative experts.

In 2012 Federal Grid Company for the fifth time in a row acted as co-founder of the prestigious international "Global Energy" Award. In June 2012, the winners of the "Global Energy" Award 2012 visited 220 kV Prospect Ispitatelei substation of Federal Grid Company in St. Petersburg which is the most high-tech and compact power facility of 220 kV voltage class in the North-West region of Russia. Russian scientists involve in the project to create the intellectual power grid, assist Federal Grid Company in monitoring of global innovations and its implementation at the UNEG facilities.

In September 2012, the top management of Federal Grid Company participated in the Business Summit of the Asia-Pacific Economic Cooperation (APEC 2012), on Russky Island (Vladivostok). Head of the delegation of Federal Grid Company, the Chairman of the Management Board Oleg Budargin took part in the discussion "Infrastructure as a basis for sustainable growth" devoted to the impact of infrastructure on the development of the regional and global economies of APEC countries.

In September 2012, the top management of Federal Grid Company joined the XI International Investment Forum "Sochi-2012". During the forum, Federal Grid Company and Sim-Ross Lamifil concluded a memorandum on the localization of the production of energy-efficient wires of a new generation within the Russian Federation. The signing ceremony took place in the presence of the Governor of the Yaroslavl Region Sergey Yastrebov.

In October 2012, the Company participated in III All-Russian conference "Russian fuel and energy complex, from human resources to human capital". As part of the conference, the Ministry of Energy of the Russian Federation noted the Company's contribution made to the development of social policy in the electric power sector – Minister of Energy of the Russian Federation Alexander Novak handed a diploma and the prize "For contribution to the development of social policy in the electric power sector" to representatives of the Company.

In October 2012, Federal Grid Company with the participation of the Ministry of Energy of the Russian Federation organized the First International Grid Forum UPGrid "Electric Power Complex. Innovations. Development".

More than 200 companies have demonstrated its innovations and new technologies, among them ALSTOM GRID, CISCO, HYUNDAI HEAVY INDUSTRIES Co., TOSHIBA, IC BRESLER, SIEMENS, ABB, SIE AKRA, 3M, Electrozavod, RTSoft, AMZ, Togliatti Transformer, SC Electroshield - TM Samara, etc.

In November 2012 Federal Grid Company participated in the round table "Sustainable Development as a Major Trend in the Global Economy in the XXI Century". The panelists, including former German Chancellor Gerhard Schroeder, President of SAP EMEA Frank Cohen, CEO of SAP SIC Igor Bogachev, a professor in the field of corporate social responsibility and sustainable development of the University of Siegen, Dr. Martin Hill, discussed the initiative in the field of sustainable development in Russia and achievements of world economic leaders in sustainable development. In particular, the roundtable participants noted the need to advance development in the Russian energy efficient technologies, alternative and distributed energy.

In December 2012 the Company's management delivered a report on "Innovative Development of Federal Grid Company "at the II International Forum on Innovation in the fuel and energy sectors "NewGen - Energy of the Future".

In December 2012 Federal Grid Company participated in the IV International Energy Forum "Innovations. Infrastructure. Security".

Awards to the Company`s management from external stakeholders

In July 2012 the Patriarch of Moscow and All Russia Kirill awarded the Chairman of the Management Board of Federal Grid Company Oleg Budargin by Order of St. Sergius of Radonezh of the second degree. Oleg Budargin was awarded with high church award "in recognition of his assistance in the restoration of the Valaam monastery". The awarding ceremony took place in the upper church of Spaso-Preobrazhensly Cathedral, Stavropigialny Valaam Monastery.

Participation in the preparation of the report "Association" RaEI"

In 2012, Federal Grid Company participated in the preparation of the annual "Public industry report of the social partnership`s parties in the electric power industry of the Russian Federation in 2012", published by the Association RaEI and VEP.

This report, prepared in view of the Guide Global Reporting Initiative (GRI), promotes formation of a vision of the consumers of electricity on a collective portrait of energy organizations, on building social and labor relations in the organizations of the sector, on the development of social partnership and the implementation of the commitments made by each party. The Russian Union of Industrialists and Entrepreneurs (RUIE) included the Public Report in the National Register of corporate non-financial reports.

Dialogue with Stakeholders, "Human Capital Management in Federal Grid Company"

Minutes Summary of Dialogue with Stakeholders as Part of the Preparation of the 2012 Report on Social Responsibility and Corporate Sustainability of Federal Grid Company

Theme of the Dialogue: Human Capital Management in Federal Grid Company

The dialogue was held on April 5, 2013 from 14:00 to 17:00 in the conference room of Federal Grid Company at the address: 9/11 B. Nikolovorobinskiy lane, Moscow.

Before the meeting, participants in the dialogue received the following information materials:

— the program of dialogue;

— presentation materials on the topics:

— personnel policy and human resource management system in Federal Grid Company;

— personnel reserve of Federal Grid Company;

— staff training and development in Federal Grid Company.

The event was attended by representatives of the following stakeholders:

Representatives of State Regulatory Authorities:

— Sergey Abyshev, Deputy Director of the Department for administrative and legislative work of the Ministry of Energy of the Russian Federation

Representatives of Educational Institutions and Scientific Organizations:

— Zagir Atayev, Deputy Director for studies and educational work of the NGO "Energy College" Kaspiysk

— Vadim Vostokov, Director of Innovation and Technology Centre, MIPT

— Alexey Gusenkov, Provost for Academic Affairs, ISPU

— Sergey Mishcheryakov, CEO of NPO KONTZ UES

Representatives of Youth Organizations:

— Gennady Gromyatzky, Deputy Chief of the Central Staff of YNGO "Russian student teams"

Representatives of Industry Organizations:

— Pavel Ushkarov, Head of Department for regulation of SLR in the electric power sector in association RaEl

Representatives of the Expert Community:

— Svetlana Epikhina, a Member of the Working Group "CSR and Sustainable Development" of the Agency for Strategic Initiatives

— Mikhail Kolesnikov, Head of the Energy Committee of the NGO Support of Russia

— Anastasia Mokritskaya, Chief Specialist of the Department of Personnel Development of MUEGC

— Larisa Nozdracheva, Director of the Administrative Department of the International Centre under the auspices of UNESCO "Sustainable Energy Development"

— Valeriy Oskin, CEO of non-profit partnership "National Confederation" Development of human capital" to promote faster development

— Natalia Ponomarenko, Senior Expert of HR management and organizational development block of INTER RAO UES

— Darya Prokhorova, Head of the Center of personnel evaluation RusHydro — "KorUnG"

— Igor Rogojin, CEO of the Association SIZ

— Elena Savlyuk, Director of the Information Department of the International Centre under the auspices of the UNESCO "Sustainable Energy Development"

— Larissa Semenova, Head of Public Relations Department of TGC-1

— Andrey Chechin, Head of Project Office of staff management and organizational development block of INTER RAO UES

— Alexander Fedorets, Director of the NGO Workplace Safety Institute

Internal Stakeholders:

— Sergey Savosko, Head of the Department of Occupational Health and Safety of Federal Grid Company

Representatives of consulting companies on issues of non-financial reports and corporate development

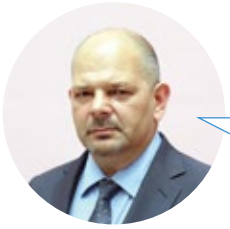
— Ivan Barzola, Manager of Corporate Governance and Sustainable Development, KPMG

— Vladimir Mityashin, the auditor of BureauVeritas Rus

— Vladimir Scobarev, Partner, Deputy General Director of NPI Consult

Speaker of the Dialogue:

— Sergey Nakvasin, Head of Business Direction "Reporting" of GC Yes-Strategy.



I. The Opening of the Dialogue

In opening the dialogue, First Deputy Head of Strategic Communications Department Kozlov O.E. noted that the 2012 Report on social responsibility and corporate sustainability of Federal Grid Company is aimed at the description of the performance of one of the most important issues for the Company - human capital management. In preparing this report the Company is focused on the best of foreign and domestic practices. Further Kozlov O.E. listed the key events of Federal Grid Company in the year and gave the floor to lead the dialogue.

Speaker of the dialogue Nakvasin S.Y. spoke about the history of social reporting in Federal Grid Company. Further, objectives of the dialogue were formulated:

1. formulate requests of future readers of the report to its content;

2. collect recommendations of the expert community to improve human capital management in Federal Grid Company.

Nakvasin S.Y. particularly noted that the management of Federal Grid Company attaches great importance to non-financial reporting, as evidenced by the Company`s victories in various competitions of reports.

After the speaker of the dialogue had fixed time limits of the event, the floor was passed to the first speaker - Chevkin D.A, Director on Human Resources Management of Federal Grid Company.

II. The Report on «Personnel Policy and Human Resources Management System in Federal Grid Company»

The speaker, HR Management Director of Federal Grid Company Chevkin D. A. began his presentation with brief information about Federal Grid Company.

Further the speaker described the indicators related to human resources management and personnel policy of the Company. Chevkin D.A. noted that none of the objectives of the development strategy of electric power grid complex, which was recently discussed at public hearings in open government, could be solved satisfactorily without the support of Human Resources Management System.

Then, the speaker pointed out the factors which affect the implementation of personnel policy:

— deterioration of the demographic situation;

— increased competition for labor resources;

— imbalance of supply and demand in the education market;

— reduced mobility of employees within the Russian Federation;

— state regulation of tariffs.

Continuing his report, Chevkin DA identified key priorities and principles of the system of human resources management and personnel policy of Federal Grid Company:

— improving the efficiency of the organizational structure of the Company;

— increasing the level of staff training by means of both improvement of training system and upgrading of qualifications;

— ongoing collaboration with higher educational institutions and specialized secondary education institutions.

Further areas, which are implemented as part of personnel policy for the classic areas, human resources management (human capital), planning, recruiting, assessment and staff development were described.

With regard to personnel capacity planning Chevkin DA noted that the Company has a system focused on the needs for a planning horizon of one year. In terms of the recruitment Federal Grid Company shifts for itself, without using the resources of recruitment agencies. The incentive system at all levels, from senior managers to grass-roots linear divisions is based on key performance indicators. They are developed and fixed due to functional and regional specificity. There are several hundreds of indicators. Each is controlled by at its own level control. The variable part of the remuneration depends almost entirely on performance.

Continuing the theme of employees` motivation speaker called the average wage in Federal Grid Company. In 2012, it was about fifty-eight thousand rubles. To determine the amount of wage the Company conducts regional studies of payment levels.

Standard elements of benefits package and social safety used by the Company are health insurance, financial aid system, non-state pension schemes system, housing program.

In addition, Federal Grid Company attaches great importance to the development of corporate culture in the internal communications system.

Finally Chevkin DA analyzed the targets set by the Company taking into account strategic goals of the existing power grid complex in general and Federal Grid Company in particular.

When the report had been finished, the representatives of stakeholders were given the opportunity to ask questions.

Abyshev S.V.: Does Federal Grid Company have a mission? Is the workforce productivity calculated in the Company?

Chevkin D.A.: The Company has a mission the concept of which is to ensure a reliable operation of the UNEG while ensuring growth rates of infrastructure which correspond growth rates of the economy, business demand and so on. Workforce productivity is calculated, but there is a question related to the correctness of the technique because power grid companies do not produce a tangible product.

Oskin V.V.: What is the goal of reducing the average age of the company? Will the concept of "high-performance workplaces" be included in the report?

Chevkin DA: Reduction of middle age is not a goal in itself and in this area there is a serious problem in the electric power industry. It is necessary to increase the proportion of young professionals who come to the Company for a long time. The gap that exists between the generations should be reduced and an indicator is the value of average age. The degree of workplace productivity is primarily determined by the technology and equipment used.

Mishcheryakov S.V.: Is the concept of business culture overlooked or deliberately bypassed?

Chevkin DA: Almost all aspects of production activities, including the procedure of work of the production staff are really standardized and regulated in the Company.

III. Report on the Personnel Reserve of Federal Grid Company

Speaker, Deputy Head of the Department of Organizational Development of Federal Grid Company Filippova E.A. began her discourse with the history of the project to build personnel reserve, which was initiated in 2006. Two years ago, the Company decided that it is necessary to create an internal structure within the Personnel Management Department, which would deal with personnel reserve.

Next Fillipova E.A. got down to description of the concept of the personnel reserve of Federal Grid Company. One of the first tasks in this area was that the Company needed to identify the project customer for personnel reserve and understand who would use the results of this project. Chairman of the Management Board, Chief engineer and those who were subordinated to him were identified as the customers. The main areas of work with the personnel reserve were specialties in the field of protective relaying, substation equipment, power transmission lines and operational and process control.

Then, the reserve personnel assessment system was established:

— 70% of the assessment test is professional and technical competencies, which consisted of the diagnosis, prevention, forecasting, operational activities and mitigation of consequences;

— 30% of the assessment test is managerial competencies.

The reserve personnel assessment system was designed in the form of standard and methodology. The assessment was conducted in person meeting with a reservist.

In the future, own assessment methodology will be applied to tutors for which KPI is designed. Tutors do not receive the full amount that they are entitled for the entire cycle of tutorship. They get 50% of that amount on a monthly basis, and only as a result of the positive performance dynamics of a reservist they can get their remaining amount.

At the end of the report Fillipova E.A. announced statistics on personnel reserve and noted that the work to improve the personnel reserve management of Federal Grid Company is carried out on ongoing basis.

When the report had been finished the representatives of stakeholders were given the opportunity to ask questions.

Abyshev S.V.: Is there such an area of work as talent management? Is there assessment of reserve fluctuation?

Fillipova EA: The information about Talent Management will be available in the next report. Currently, none of the number of reservists left the Company. This is one of the indicators of tutor`s KPIs. So tutor`s task is to retain this reservist, and if the reservist leaves, tutor does not get the appropriate remuneration.

Prokhorova D.A.: Is there a division into perspective (youth) reserve and experienced employees for reserve in the Company?

Fillipova EA: There is a division into strategic and tactical reserve in the Company.

Epikhina S.B.: How did the reservists assessment results take into account at this stage and is there a connection between past stages of projects and present ones? How did the assessments of reserve work effect the formation of professional standards? Was the assessment of reservists taken into account in the design of organizational structures? Does the Company use a data of 2005-2007 projects to analyze and disclose the dynamics of personnel reserve in the report?

Fillipova E.A.: CEO of MES and Chief Engineer supervise for connection of past and present stages of projects. Federal Grid Company has not yet been integrated into the system of professional standards. The development of professional standards is the next step in the personnel management development. The Company enjoys and takes into account the results of 2005-2007 personnel reserve projects.

Oskin VV: How are the numbers "475 reservists" and "276 tutors" harmonized in the report?

Fillipova EA: Here are the numbers of those tutors who have already been trained and work with reservists and fixed by order. Currently, Federal Grid Company is implementing this project: all reservists assessed and trained but all tutors not yet trained. And not all tutors who attended training further get into the system.

IV. Report on Training and Personnel Development in Federal Grid Company

Speaker, Head of the Staff Training Center of Federal Grid Company Nikolova E.A. began his presentation with a notation of the principles of training programs and personnel development in Federal Grid Company:

— system approach;

— integration;

— hierarchy;

— proactivity;

— manageability.

Next, the Company`s Personnel Training System was described. The Staff Training System of Federal Grid Company consists of the following elements:

— mandatory training established by federal laws;

— industry regulatory standards;

— acts, permits;

— managerial competences` development;

— changes in business processes;

— changes in the environment in which the Company operates;

— new problems` identification;

— professional competencies` development;

— interaction with higher educational institutions.

Further Nikolova E.A. got down to the creation history of the staff training centers of Federal Grid Company, analysis of statistics on personnel training and development, and joint programs and the overall concept of education with IDGC Holding. Nikolova EA noted that the main task was to create eight training centers (later there were ten) in all operation areas of Federal Grid Company.

The speaker enlarged upon a point of the structural elements of the training centers: training classes and ranges. A simulator that completely replicates power transmission scheme that belongs to a branch for each of the branches was created. That is, in the course of a training dispatcher sits on the workplace equipped exactly as a usual workplace equipped with. All equipment of training range is the equipment from reconstructed substations. The problem was to organize training of people, skill training that is essential for people in difficult situations, on the equipment that they face every day, both for operating personnel and for protection relay personnel and all other categories of staff.

Particular emphasis as part of personnel training is associated with the 2014 Olympic Games in Sochi, because one of the next important tasks of Federal Grid Company is to ensure a reliable electric power supply to Olympic facilities.

Talent Management Program is implemented jointly with the Skolkovo. The program is designed for mid-level managers under 45 years of age. The leaders are selected and write an essay "Why should I participate in this program. The integrated program consists of six modules. This is MBA short course. According to the results of the first integrated program ten of forty people were enough sufficiently promoted.

To summarize, Nikolova E. reported on two projects implemented: the "Day of Knowledge" and "The School of Professional Power Engineer". "Day of Knowledge" in Federal Grid Company is held usually on Thursdays. "The School of Professional Power Engineer" will be implemented in the Company`s branches to ensure that young professionals do not just receive training, but obtain additional professions.

When the report had been finished, the representatives of stakeholders were given the opportunity to ask questions.

Abyshev S.V.: Does the Company have the practice of employees` adaptation by training tools? Is there statistics on reduction of failures or increase of the reliability of the equipment after employees trained? Does the system use management by objectives or management by projects?

Nikolova E.A.: Adaptation through training is not performed in the Company. Statistics on reduction of failures as a result of training is conducted. Management by projects is used in the training system.

Fedorets A.G.: Do you divide training into health and safety and safety in operation in Federal Grid Company? Does the Company implement behavioral audits? What is the quality of administrative documents on personnel management and how the responsibility of officials distributed in it?

Nikolova E.A.: Behavioral audits are conducted. In the administrative documents of Federal Grid Company responsibility is distributed very clearly and with a glance to employment duties.

VI. Queries and Proposals from Stakeholders to Disclose Information in the Report, Received in the Course of Dialogue of Federal Grid Company with Stakeholders.

Queries and Proposals in the field of Personnel Policy and Personnel Management System of Federal Grid Company:

— present data on KPI in the field of HR management in the report (Skobarev V.Y.)

— specialize the key documents in the field of personnel management (Fedorets A.G.)

— describe the consistency and continuity of management approaches to personnel management. The investment objectives in human capital should be emphasized in the Report. (Epikhina S.B.)

— present data on calculation of workforce productivity (Abyshev S.V.)

— describe the concept of "high performance workplaces" (if any). It is advisable to emphasize on high-performance workplaces in the report, in particular, to make a notation, that an increase in labor productivity cannot occur without job cuts (reflect that the Company analyzes this) (Epikhina S.B., Oskin V.V.)

— present a target for reducing the average age of the Company (if any) (Oskin V.V.)

— include information on the change of activity in the field of personnel management (if any) in the Report in connection with the new requirements of state regulation on standards ISO, ISAE, OHSAS, etc. (including Russia`s entry into the WTO) (Mishcheryakov S.V.)

— describe the work to create the Company`s competencies profile, passports of positions (Prokhorov D.A.)

— include evaluation of employee engagement in the Report (Mishcheryakov SV)

— include in the report analysis of personnel lifts (Mishcheryakov SV)

Queries and Proposals in the field of Personnel Reserve of Federal Grid Company:

— describe employees` assessment technology for personnel reserve (Epikhina S.B.)

— give an explanation if there is a division into perspective (youth) reserve and a reserve pool of experienced employees (Prokhorova D.A.)

— give an opinion of fluctuation of personnel reserve (Abyshev S.V.)

— describe the extent to which the experience to form personnel reserve in the past (since 2006) is currently used (Epikhina S.B.)

— present the dynamics of reserve personnel capacity (Epikhina S.B.).

— describe the impact of work to assess reservists on the formation of professional standards (if any) (Epikhina S.B.)

Queries and Proposals in the field of Training and Development in Federal Grid Company:

— include Statistics on reducing failures or increasing after training reliability as a training quality indicator in the Report (Abyshev S.V.)

— include performance indicators of training centers in the Report (Abyshev S.V.)

— give an explanation (if relevant) whether training is divided on occupational health and safety and safety in operation in Federal Grid Company (Fedorets A.G.)

— present information on whether there are special training courses dedicated learning to develop documents (Fedorets A.G.)

— present information on whether Federal Grid Company participates in the presidential program for training of engineers` personnel and which of subprograms are implemented jointly with higher educational institutions? (Oskin V.V.)

— describe the interaction experience between Federal Grid Company, Ivanovo State Power University and other higher educational institutions (Gusenkov A.V.)

— describe the approach to talent management (Abyshev S.V.)

Proposals to disclose information on social responsibility and corporate sustainability of Federal Grid Company for 2012 on the theme "Human Capital Management in Federal Grid Company:

— include a point about ensuring occupational health and psychological training of employees in the Report (Mishcheryakov S.V.)

— give an explanation (if work is underway), whether behavioral audits are implemented in the Company (Fedorets A.G.)

— describe the approach to the business culture development (Mishcheryakov S.V.)

— describe the results of an employee loyalty evaluation program: what employees like and what they do not like, and the way the Company's response (Semenova L.G.)

VII. End of the Meeting

In conclusion of the dialogue Chevkin D.A. and Kozlov O.E. thanked the participants of the dialogue for the proposals. Speaker of the dialogue Nakvasin S.Y., in turn, informed that at the end of April there will be public hearings on the draft report and thanked the participants for active discussion of the topic during the dialogue.

Public Hearings on Draft Report

MINUTES SUMMARY
of Public Hearings on the 2012 Report on Social Responsibility and Corporate Sustainability of Federal Grid Company

Public hearings on the Draft Report on social responsibility and corporate sustainability of Federal Grid Company for 2012 was held on 26 April 2013 from 16:00 to 18:00 at the address: 9/11 Bolshoy Nikolovorobinskiy lane, Moscow.

Prior to the meeting, the participants in public hearings received the following information materials:

— the program of public hearings;

— a list of participants;

— draft Report on corporate sustainability and social responsibility of Federal Grid Company for 2012;

— presentation materials on the topics:

— Youth and Social Policy of Federal Grid Company;

— The environmental impact of Federal Grid Company: management, performance, plans.

The event was attended by representatives of the following stakeholders:

Representatives of educational institutions:

— Igor Boldyshev, Executive Director of NP KONTZ UES;

— Vadim Vostokov, Director of Innovation and Technology Center of Moscow Physical-Technical Institute (State University);

— Vyacheslav Grechikhin, Provost of Academic Affairs of Moscow Power Engineering Institute;

— Evgeny Knyazev, Director of University Management Center of the National Research University "Higher School of Economics";

— Oleg Kuznetsov, Director of the National Research University "Moscow Power Engineering Institute";

— Sergey Mishcheryakov, CEO of NP KONTZ UES.

Representatives of labor unions and youth organizations:

— Sergei Zemnukhov, Chairman of labor union committee of students of the National Research University "Moscow Power Engineering Institute."

Representatives of industry organizations:

— Alexander Burdin, Head of Department of the Regulation in Social and Labor Relations in Electric Power Industry of the Association RaEl;

— Arkady Zamoskovny, CEO of the Association RaEl.

Representatives of the expert and the business community:

— Svetlana Epikhina, a member of the working group "CSR and Sustainable Development" of the Agency for Strategic Initiatives;

— Vladimir Mityashin, auditor of Bureau Veritas Rus;

— Larisa Nozdracheva, Director of the Administrative Department of the International Centre under the auspices of UNESCO "Sustainable Energy Development";

— Elena Savlyuk, Director of the Information Department of the International Centre under the auspices of UNESCO "Sustainable Energy Development."

— Alexander Fedorets, Director of NGO Workplace Safety Institute

Internal stakeholders:

— Natalia Vaguina, Chief Specialist of the Department of customer relationship and interaction with market of Federal Grid Company;

— Yuri Krutov, Senior Specialist of the Executive Apparatus of Federal Grid Company(Moscow);

— Elena Titova, Chief Expert of the Department of the Implementation of the Environmental Policy of Federal Grid Company;

— Sergey Chernousov, Head of the Power Transmission Lines Operations Department of Federal Grid Company;

— Alexey Chistyakov, Head of Division of the Department of Substations of Federal Grid Company.

Representatives of state authorities:

— Alexey Zamyslov, Deputy Director of the Department of Operational Control and Management in the Electric Power Industry of the Ministry of Energy of the Russian federation

Representatives of environmental organizations:

— Elena Zubakina, Executive Director of the Russian Bird Conservation Union;

— Alexey Knizhnikov, Program Manager on Environmental Policy of the Fuel and Energy Complex of the World Wildlife Fund (WWF) of Russia;

— Dmitry Ochagov, Head of the Laboratory of Reserve Management and Studies of All-Russia Research Institute of Nature Protection.

Speaker:

— Sergey Nakvasin, Head of Business Direction "Reporting" of GC Yes-Strategy.

I. The Opening of Public Hearings

Speaker of the hearings, the Head of Business Direction "Reporting" of GC Yes-Strategy Nakvasin S.Y. briefed the participants of public hearings with time limits of the Public Hearings. Speaker said that three representatives of Federal Grid Company are expected to make reports on significant topics of the Report: on the implementation of the housing and youth policies and on the environmental impact management. Nakvasin S.Y. explained the changes in the program: the Project Manager for Social Reporting of Federal Grid Company Louks N.Y. will make a report on key topics of 2012 Report instead of the Head of the Department of Strategic Communications of Federal Grid Company Mikhailov O.M.

Speaker outlined that the problem of public hearings is to collect proposals of stakeholders on the disclosure of information in the text of the Report for 2012 and the activities of Federal Grid Company in 2013. Then the speaker gave the floor to Louks N.Y.

II. Key Topics and Features of the Report on Social Responsibility and Corporate Sustainability of Federal Grid Company for 2012 (Report presented by Louks N.Y.)

Project Manager for Social Reporting of Federal Grid Company Louks N.Y. outlined core objectives of the Report on corporate sustainability and social responsibility of Federal Grid Company for 2012. First, the Report shapes and structures the statistics and indicators in the field of human capital management, combating conflicts of interest and in other areas of sustainable development, and, secondly, ensures transparency and accountability of the Company on a wide range of topics and issues that are essential for stakeholders.

Further the speaker presented the main parameters of the Report. In preparing the Report the Company traditionally focuses on "best practices" and the international recommendations in the field of non-financial reporting: GRI (G 3.1) and AA1000 SES standards were used, a dialogue with stakeholders was held and public hearings on the draft report are being held.

Key topics of the Report for 2012 are human capital management and anti-corruption in Federal Grid Company.

The Report consists of 10 chapters and 6 annexes. Structure of the Report is consistent with the text of the Report for 2011, which makes it easier to compare data.

Finally, N.Y. Louks announced tasks of Public Hearings:

— developing common views with stakeholders related to the Company's effectiveness in the field of sustainable development;

— the Company`s rapid response to issues that are essential for stakeholders;

— providing conditions for public assurance and non-financial audit of the Report, including terms of assessing the level of accountability and quality of interaction with stakeholders.

When the report had been finished the stakeholders were given the opportunity to ask questions.

Mityashin V.G.: What version of GRI will be used?

Nakvasin S.Y.: GRI G3.1.

III. Youth and Social Policy of Federal Grid Company (Report presented by Kindyashova O.S.)

Head of the Department of Social Programs of Federal Grid Company Kindyashova O.S. presented the main results of the implementation of Housing and Youth Policies of Federal Grid Company to the stakeholders.

The main objective of the Housing Policy of the Company is to attract and retain personnel, which plays a key role in reliable electricity supply to consumers and to improve the reliability of the Unified National Energy Grid.

In implementing housing policy three areas were highlighted:

— forming corporate housing and providing employees with service apartments from corporate housing;

— corporate assistance in purchasing of ownership of accommodation;

— rental costs compensation for employees.

At the end of the first part of the report on the housing policy of the Company Kindyashova O.S. unveiled plans relating to the implementation of housing policy in 2013, and noted that the plans and obligations of Federal Grid Company in the field of housing policy, adopted in the Report for 2011 (on the amount of funding for programs to promote purchase of accommodations and rental cost compensation, and also on an emphasis on the provision of accommodation for young professionals) were implemented in full.

The second part of the report was devoted to youth policy. In 2012 Federal Grid Company acted within the framework of agreements with 51 educational institutions, including 14 specialized secondary institutions. With the participation of students and teachers of the educational institutions, the following measures were carried out:

— field trips;

— training of teachers at the facilities of Federal Grid Company;

— development of joint training programs;

— participation of specialists of Federal Grid Company in the educational process;

— Day of Knowledge;

— involvement of higher educational institutions in joint scientific and research work;

— scientific, technical and reference literature on electric power industry contest;

— students` works related to power transmission grids contest.

At the end, the speaker outlined the main results of the interaction with higher educational institutions and spoke about the Company's plans to develop student construction teams.

When the report had been finished the stakeholders were given the opportunity to ask questions.

E.A. Knyazev: Does Federal Grid Company participate in the development of professional standards?

Kindyashova O.S.: Yes, but the Department of Personnel Management is responsible for this area.

Grechikhin VA: What are the support mechanisms for students in the regions of Russia used by the Company?

Kindyashova O.S.: To support learning in higher educational institutions (either in the form of tuition or social guarantees and benefits) targeted support is performed. Support decisions are taken in the Company`s branches.

Boldyshev I.V.: Will the housing policy of Federal Grid Company be continued in Russian Grids?

Kindyashova O.S.: Yes, the Company has formulated such a task.

Burdin A.A.: How many employees are in need of better housing conditions and how the interaction between the needy employees and management of the Company is conducted? Is there the Young Professionals Council in the Company?

Kindyashova O.S.: The Housing policy of Federal Grid Company is a tool to solve operational and personnel problems, rather than a tool of social insurance, while having a social resonance. The housing program is funded by the Company`s profits. Of course, the Company is contributing to accommodation provision for employees who do not have their own homes. But it does not set itself the task to provide accommodation for all employees.

There is no the Young Professionals Council in the Company, but there are plans to create it.

IV. The Environmental Impact of Federal Grid Company: Management, Performance, Plans (Report presented by Leonov N.N.)

Head of the Department of Environmental Policy Implementation of Federal Grid Company Leonov N.N. began his report with a description of the goals and objectives of the Company's Environmental Policy.

Environmental policy of the Company was adopted in 2008. Its main goal is to increase the level of environmental safety and the investment attractiveness of the Company by providing a reliable and environmentally safe transportation of energy via electric power grids.

The Environmental Policy has 2 main objectives:

— facilitating the reduction of negative effects of electric power grid enterprises on the environment through the implementation of technical measures;

— creating organizational mechanisms to upgrade methodological approaches, standards, guidelines and implement an environmental management system, not only in the executive apparatus, but also in the branches.

Further the speaker presented information on the implementation of the Program for the implementation of the environmental policy of Federal Grid Company for 2011-2013. In accordance with the Program, the Company implements the environmental management system at all branches. These measures must be successfully completed by 2016.

Prevention of emergency outages in transporting electricity that can occur when nesting storks on the electric power transmission lines` poles is carried out in MES East. Artificial storks' nests are created. Death of these birds listed in the Red Book was never registered over the entire period of operation of electric power transmission line in MES East.

Federal Grid Company introduces advanced, innovative equipment in constructing new and reconstructing existing substations, which is capable of releasing a large enough amounts of land in a metropolis. In addition, the Company replaces lattice poles for multi-faceted steel ones, which can reduce the width of the forest belts and thereby minimize the area of felling of trees.

In conclusion, N.N. Leonov presented the main plans of the Program to implement environmental policy of the Company for 2013. Among them is the further disposal of equipment containing trichlordiphenyl, introduction of new safety-related equipment from an environmental point of view, the further implementation of the environmental management system in the branches of the Company. The Company plans to continue ongoing research on the effects on biodiversity in specially protected natural areas and implement training programs for principles of environmental safety and handling with production waste for managers and employees. After the completion of the report the stakeholders were given the opportunity to ask questions.

Zubakina E.V.: What is the smart grid?

Speaker of the meeting: Annex 2 to the Report contains information on the UNEG innovative development and other additional information on this issue.

Foci N.N.: Do you want that Far East stork will not nest in certain places of the poles or want them to leave these poles?

Leonov N.N.: The Company decided to create artificial support devices on the poles. Existing Far East stork nests were transferred to the newly established specialized courts. To prevent re-nesting of storks on dangerous sections of the poles special types of barbed wire obstacles are used.

Burdin A.A.: How does the process of waste disposal take place in the Company, whether contractors of the Companies which dispose waste comply with international environmental standards?

Leonov N.N.: Federal Grid Company does not obtain license to transport waste. In all regions the Company has signed agreements with specialized contractors which are engaged in disposal. This service is sold on a competitive basis. In MES South and MES North-West the requirement to comply with international environmental standards is included in the agreements.

V. Proposals and Recommendations of Stakeholders

Proposals to the text of the 2012 Report:

from higher educational institutions:

— Provide information on the activity to develop professional standards (Knyazev E.A., NRU HSE)

— Disclose the information on the Company's interaction with academic community of higher educational institutions, with the collegiate governing bodies of universities, with expert councils under the partner higher educational institutions (Knyazev E.A., NRU HSE)

— Describe mechanisms to support students in the regions of the Russian Federation - tuition, social benefits, etc. (Grechikhin V.A., NRU MPEI)

— Disclose the information on the Company`s scholarship programs for students (Grechikhin V.A., NRU MPEI)

from industry organizations:

— Specify the number of employees who need to improve their living conditions and how the Company`s management interacts with those in need of accommodation (A.A. Burdin, Association RaEI)

— Disclose the information on that how the process of waste disposal is carried out in the Company and whether the contractors which dispose waste comply with international environmental standards. (Burdin A.A., Association RaEI)

— Reflect the survey findings of Federal Grid Company`s employees` satisfaction with employer and indicate the survey mechanisms used in the Report. (Burdin A.A., Association RaEI)

— Provide the information on how conflicts are resolved in the Company`s labor collective (A.A. Burdin, Association RaEI)

— Add the information on the internal personnel displacement coefficient and labor productivity to the Report (Burdin AA, Association RaEI)

— Disclose the information on the salary fund (Burdin A.A., Association RaEI)

from environmental organizations:

— Disclose Statistics on birds` deaths associated with the activity of Federal Grid Company (Zubakina E.V., Russian Bird Conservation Union)

— Specify the method of calculation of indirect emissions of greenhouse gases (Knizhnikov A.Y., WWF)

— Provide complete information on all compensatory measures in Section "Basic indicators of the impact on the environment" in paragraph "The impact on flora and fauna, soil and ground" (Knizhnikov A.Y., WWF)

— Improve the information content of the sections relating to biodiversity, specially protected natural areas and birds` death. (Knizhnikov A.Y., WWF)

— Discover more detailed the theme "Impact on Biodiversity" of the Section "Initiatives of the Company in the field of environmental protection" (Ochagov M.D., VNIIPriroda)

from the expert and the business community:

— Specify what Federal Grid Company meant by sustainable development (Epikhina S.B., ASI)

— Amend Chapter 5, taking into account that the sustainable development of the Company is due, primarily, to operation activities, provision of electricity and a reliable electric power supply (Epikhina S.B., ASI)

— Delete references to 2011 Report. If the changes compared the previous Report did not occur, write "The principles, disclosed in 2011 Report, did not change, the Company continues to follow them." (Epikhina S.B., ASI)

— Disclose more detailed the theme of interaction with consumers: how the results of surveys measuring

customer satisfaction level use in management and what survey data are included in the indicators. (Epikhina S.B., ASI)

— Disclose more detailed the information on management approaches to every aspect of the Company`s activity (Epikhina S.B., ASI)

Proposals for activities of Federal Grid Company in 2013:

— Continue work to develop professional standards (Knyazev E.A., SRU HSE; Grechikhin V.A., NIU MPEI; Epikhina S.B., ASI)

— Present Draft Report to participants in public hearings at least one week prior to the event (Knizhnikov A.Y., WWF; Zubakina E.V., Russian Bird Conservation Union; Grechikhin V.A., NIU MPEI)

— Create centers for professional advancement and training at higher educational institutions (Grechikhin V.A., NIU MPEI; Vostokov V.Y., MIPT)

— Provide support for students by the Company in the form of scholarship programs (Grechikhin V.A., NIU MPEI)

— Expand the orders from Federal Grid Company for R & D of higher educational institutions (Grechikhin V.A., NIU MPEI)

— Develop and launch the implementation of a plan on interaction with stakeholders of environmental organizations (A.Y. Knizhnikov, WWF)

— Complete Sections of the Report devoted to impact on the species listed in the Red Book and biodiversity, particularly in specially protected natural areas. (Zubakina E.V., Russian Bird Conservation Union Knizhnikov A.Y., WWF)

VI. Completion of the Public Hearings

At the conclusion of the hearings the managers of Federal Grid Company expressed their attitude to the proposals of stakeholders.

Head of the Department of Social Programs of Federal Grid Company O.S. Kindyashova thanked the stakeholders for their comments and noted that most of the proposals of stakeholders in terms of housing and youth policy to the Sections of the Report will be taken into account.

Head of the Department of Environmental Policy Implementation of Federal Grid Company N.N. Leonov also thanked all participants and promised to complete Sections of the Report with the information relating to the implementation of the environmental policy of Federal Grid Company, and take into account all comments and proposals of stakeholders made during the public hearings.

Conclusion on the Public Assurance of 2012 Federal Grid Company Social Responsibility and Corporate Sustainability Report

General Information

The management of Federal Grid Company invited us to assess 2012 Social Responsibility and Corporate Sustainability Report (hereinafter - the Report) in terms of completeness and materiality of the information disclosed, as well as give an opinion for the Company's management response to stakeholders inquiries. For this, the Company gave us and our representatives the opportunity to participate in the dialogue with stakeholders on the topic "Human Capital Management in Federal Grid Company" (April 5, 2013) and Public Hearings on the Draft Report (April 26, 2013), where we could freely express our opinions on the issues discussed.

Report Assessment Process

Our Conclusion is based on a comparative analysis of the two versions of the Report (Draft Report for Public Hearings and the final version), as well as on the analysis of comments and answers to our questions that we received from the management and employees of Federal Grid Company during the Dialogue and Public Hearings.

We were also able to evaluate the Company's ability to respond to stakeholders` suggestions and comments that they expressed at these events. When evaluating, we made recommendations to improve the quality of future Reports and improve the reporting process as a whole. Verification of fairness of the information presented in the Report is not a matter of public assurance, so we did not set the task to verify the authenticity of the Company`s financial and non-financial performance, which is monitored by independent auditors, internal control and audit divisions, tax authorities and other authorized organizations. We took into consideration the following criteria: the orientation of the Report to the requirements of the selected standards and guidelines for reporting in the field of sustainable development (GRI G 3.1 and AA1000 SES); application of the basic principles of reporting, completeness and balance of information; matching to the sustainable development context, response to stakeholders` suggestions; materiality of topics presented in the Report; credibility and consistency of information presented in the Report`s main sections.

The results of our work are presented in the form of Public Assurance Conclusion, which contains opinions on which we have come to a mutual agreement. Our own viewpoint is presented in the Conclusion. We express our opinions as individual members of society, and not as representatives of the organizations we work. We have not received remuneration from the Company for the time spent for doing the work.

Assessment

In general, our evaluation of the Report relating to its format and scope of the information provided is positive. We are not aware of any facts that cast doubt on veracity of the information provided.

The Company's efforts to inform the public about its activities in the field of sustainable development in the form of regular release of non-financial reporting (this is the sixth report) meet with approval. To improve the quality of its reports Federal Grid Company organizes meetings with stakeholders and thus demonstrates a willingness to engage in open dialogue on various

aspects of its activities to increase the transparency of the Company and the electric power industry as a whole.

The apparent advantage of the Report is selection and detailed provision of the information on the Company's priorities in the field of corporate social responsibility and sustainable development. Special attention is given to human capital management: hiring and development of young employees, training and personnel development, improvement of the competence of the Company's employees on innovative areas of work and housing improvement of employees. Thus, we can state that the information on the selected priority topic is adequately disclosed.

Materiality of Information

The Report provides comprehensive information on the performance in the Company`s specific areas of CSR management (human capital management, combating corruption, ensuring reliability, innovative development), on the impact of Federal Grid Company on the environment, society and economy and on managing these impacts. The continuity of the content in relation to previous reports gives insight into the direction of the Company`s development to the readers of the Report.

Balance

We appreciate the achieved information balance level in 2012 Report. The Report sufficiently provides information on all key aspects of activities in the field of sustainable development, reflects management`s approaches in these areas, describes both successful and problematic aspects of the Company`s activities. However, we believe that the Company has to focus on informativeness of sections related to biodiversity, SPNR, bird kill and the development of the Company` professional standards in economic, environmental and social spheres.

Stakeholders Involvement in the Preparation of the Report

The communications between the Company`s management and us, as representatives of stakeholders, was organized at a high level, that, in our opinion, had a positive impact on the quality of reporting information. During the Dialogue and Public Hearings we were given the opportunity to make suggestions and proposals to disclose important to us aspects of the Company's activities in the Report.

Company`s Response to the Comments and Suggestions of Stakeholders

The Company's management responded to comments and questions from stakeholders both in the framework of the Dialogue, giving answers to our questions, and in the form of inclusion of updates and additional information into the final version of 2012 Report on our requests, announced at the Public Hearings. In particular, the Company added the following information:

— experience of cooperation with higher educational institutions;

— key documents in the field of personnel management;

— personnel assessment technology

for personnel reserve;

— dynamics of the number of personal reserve;

— the Company`s waste disposal process;

— calculation procedure of indirect emissions of greenhouse gases;

— other information requested within the hearings.

In our view, in preparing the final version of 2012 Report the Company's management has proved the ability to respond to the suggestions and proposals of stakeholders and respond constructively to the issues raised.

Recommendations

In preparing reports for future periods the Company should pay particular attention to the disclosure of the following essential topics:

— development of professional standards;

— employee loyalty assessment programs, the Company`s employee satisfaction with the employer surveys;

— labor productivity;

— high-performance workplaces;

— behavioral audits;

— approach to talent management;

— indicators of the effectiveness of training centers;

— Federal Grid Company's scholarship programs for students;

— compensatory measures due to the impact on flora and fauna, soil and ground;

— impact on biodiversity.

In addition, we would like to draw the Company`s attention on the desirability of the following actions as part of communications with stakeholders in the field of corporate social responsibility and sustainable development:

— timely presentation of the Draft Report to the Public Hearings (no later than one week prior to the event);

— full implementation of the engagement plan with stakeholders presenting environmental organizations.

Comments and recommendations made by us do not take from the merit of the Report. We hope that the Federal Grid Company will consistently implement plans and commitments in the field of CSR and sustainable development, as reflected in this Report, and will also develop the practice of interaction with stakeholders.

Representatives of Educational Institutions

— Vyacheslav Grechikhin, Provost of Academic Affairs, NRU Moscow Power Engineering Institute;

— Sergey Mishcheryakov, CEO, NP CTS Center UES;

— Vadim Vostokov, Director of Innovation and Technology Centre of MIPT.

Representatives of Youth Organizations

— Gennady Gromyatsky, Deputy Chief of Staff of the Central Headquarter of Russian Youth NGO "Russian student teams";

Representatives of Industry Associations:

— Arkady Zamoskovny, CEO of RaEL Association;

Representatives of the Expert Community

— Svetlana Epikhina, a member of the working group "CSR and Sustainable Development" of Agency for Strategic Initiatives;

— Valeriy Oskin, Chairman of the Management Board of non-profit partnership to facilitate faster development "National Confederation" Human Capital Development";

Representatives of Environmental Organizations:

— Alexey Knizhnikov, Program Manager on Environmental Policy of Fuel and Energy Complex of the World Wildlife Fund (WWF) Russia;

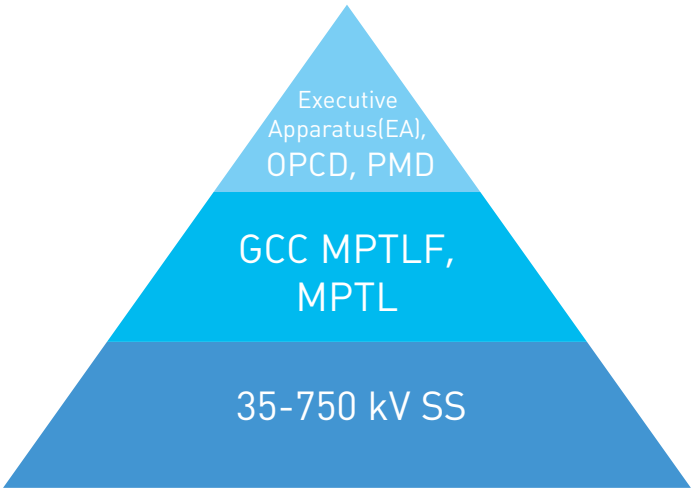
— Dmitry Ochagov, Head of the Reserve Management and Studies Laboratory of All-Russia Scientific Research Institute for Environmental Protection.

APPENDIX 1.
The UNEG Reliability Provisions

Reliability System Control

Starting from 2010 Federal Grid Company develops a system of operations and process control in accordance with the UNEG Facilities Operations and Process Control Concept adopted by the Company.

The Company has established an efficient operations and process control hierarchy. The control hierarchy is topped by the Operations and Process Control Division (OPCD) and by the Power Modes Division (PMD) led by the Deputy Engineer-in-Chief, the Chief Operations Control Officer of Federal Grid Company. The basis of the hierarchy is made of 35-750 kV substations, while the middle part of the hierarchy is composed of the Grid Control Centers (GCC) controlling the operation of the Main Power Transmission Line Facilities (MPTLF) and of the Main Power Transmission Lines (MPTL), with GCC being the first structures of the type in the history of the industry.



The main functions of the Company's operations and process control system are:

— to provide for the reliable operation of the UNEG facilities and to perform in accordance with the performance mode conditions preset by the Systems Operator's control centers;

— to provide for the proper quality and safety of operation of the UNEG facilities;

— to provide for the functioning of the operations personnel training system, etc.

The operations and process control system, its structure and functions are based on the following principles:

— the unification of the structure of the Company's operations and process control divisions, equipped with consistent process hard and software;

— the optimal distribution of functions and responsibilities among the Company's operations and process control divisions;

— the prohibition to assign the operating functions to the divisions not directly responsible for the operation of corresponding facilities, etc.

General Accident Rate

Federal Grid Company makes every effort to decrease the accident rate. In 4 recent years the Company achieved considerable results in this field due to the following:

- Equipment operation quality improvement
- Production culture improvement
- Accident rate analysis

→ 60.8% decrease in the number of accidents caused by operation defects

- Enhancing the responsibility of employees in charge
- Enhancing the responsibility of specialists and managers controlling the progress of the works
- Improving the personnel motivation
- Publication of industry guidelines and information accident prevention materials

→ 32.8% decrease in the number of accidents caused by human factor

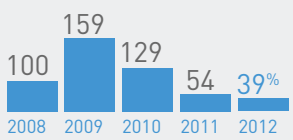
- Implementation of the target investment programs involving the replacement of outdated equipment

→ 57.4% decrease in the number of accidents caused by damaged base insulators

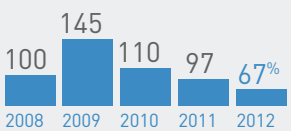
→ 35.2% decrease in the number of accidents caused by damaged high-voltage switches

Electric Power Supply Reliability
2008 – 2012 Incident Rate Dynamics Broken Down by Causes

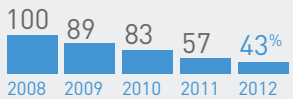
Accidents caused by operation deficiencies



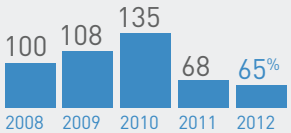
Accidents caused by human factor



Accidents caused by damages base insulators

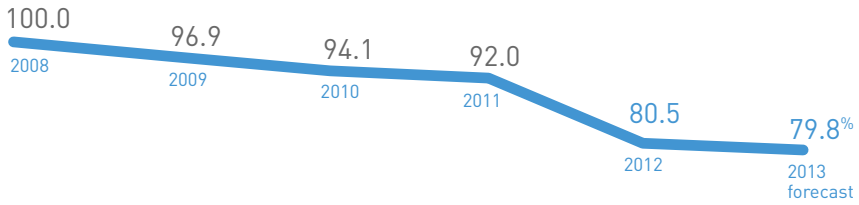


Accidents caused by high-voltage switches



The efforts made by the Company resulted in 19.5% decrease of the specific (per 1,000 conditional units) accident rate, compared with 2008:

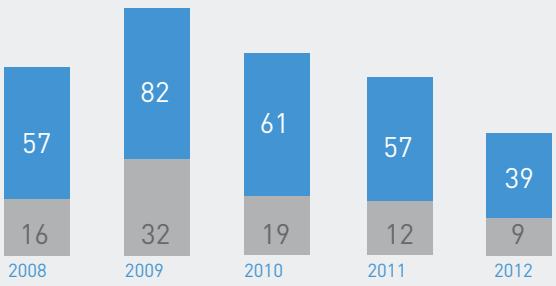
2008-2012 Specific (per 1000 conditional units) Accident Rate Dynamics



* The data on specific accident rate for December 2012 are specified on the basis of the statements presented on January 28, 2013 (the data may be updated).

The number of disturbances

The Number of Disturbances Caused by Human Factor Has Been Decreased Compared with the Previous Years

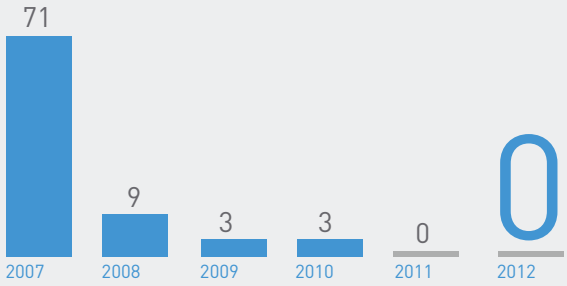


The disturbances caused by human factor (meaning all categories of employees)

The disturbances caused by human factor (meaning operating personnel)

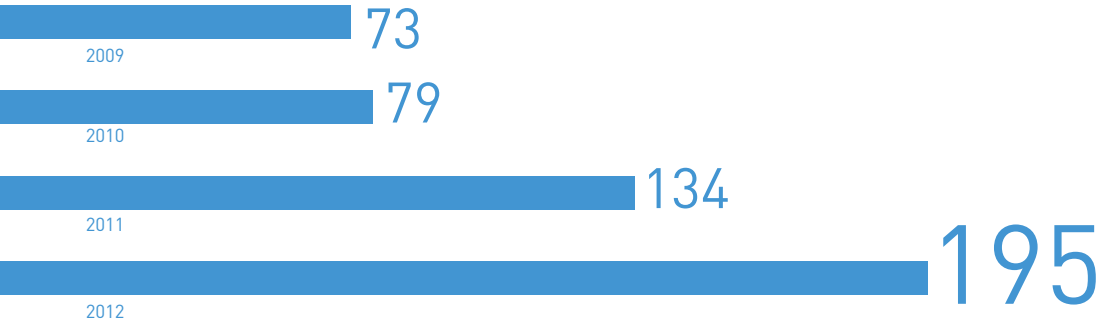
The number of violations of the standard

The UNEG voltage quality has been improved significantly. No violations of the acceptable voltage level in the UNEG has been registered (such violations amounted to 71 in 2007, decreasing gradually).



The in-depth analysis of the modes of operation of the energy systems resulted in the identification of 195 bottlenecks, limiting the normal and repair mode operation of the grid (134 bottlenecks in 2011, 79 in 2010 and 73 in 2009):

The Number of Bottlenecks



In 2012 the Company implemented a number of managerial solutions influencing the reliability of power supply directly:

— the operation functions have been assigned to the Grid Control Center of the Primorskoye PMES in accordance with the Operations and Process Control Concept;

— the Company published a standard Policy on the Interaction with the Operating Personnel of Federal Grid Company, a Procedure for the Development and Implementation of Measures to Maintain the Required Voltage Level in the UNEG, and a Company Standard "Instructions on the Calculations to select type, parameters and locations to install the reactive power compensators within the UNEG";

— the Company finished the test operation of the methods to calculate the limiting current loads while preserving the mechanical strength of wires and the acceptable dimensions of overhead lines. The test operation resulted in preparation of the methods of calculation of the limiting current loads for publication. Also prepared for publication was the procedure for the Company divisions interaction while determining the limiting current loads;

— the Company hosted the IV Interregional Competition with the participation of the operating personnel working at substations and at the GCC of the Company.

The initiatives planned for 2013 include the following:

— Further assignment of operating functions to GCCs of PMESs;

— Publication of standard instructions for performing switching operations at substations of Federal Grid Company, and for the elimination of disturbances at the Company facilities, as well as for the conduct of negotiations and for the execution of documents at substations and at the Company GCCs;

— Preparation of technical and organizational solutions for the transfer of new generation substations under the control of PMES's GCCs, eliminating the need for continuous on-duty personnel at such substations.

Reliability Provisions and Special Periods

During 2012 autumn-winter period of peak loads the Company provided for 33.3% decrease of the specific accident rate at the UNEG facilities, compared with the same period of 2011. This became possible due to special measures taken by the Company, including two-stage preliminary assessment of the readiness of the power grid facilities for operation during increased loads period.

The Company general managers, meaning the MES directors and SDCs of IDGC Holding have developed and approved a combined operation scheme for the power grid facilities and optimized the allocation of resources. These successful measures resulted in the obtainment by the Company of the certificate of preparedness for 2012-2013 autumn-winter period. The certificate confirming the timely and properly fulfilled set of measures to improve the reliability of consumer power supply was obtained on November 9.

Renovation of the Company' Fixed Assets

An increase of capital investments in new construction and reconstruction, and the implementation of special reliability improvement programs resulted in changing the trend for ageing the Company facilities and equipment.

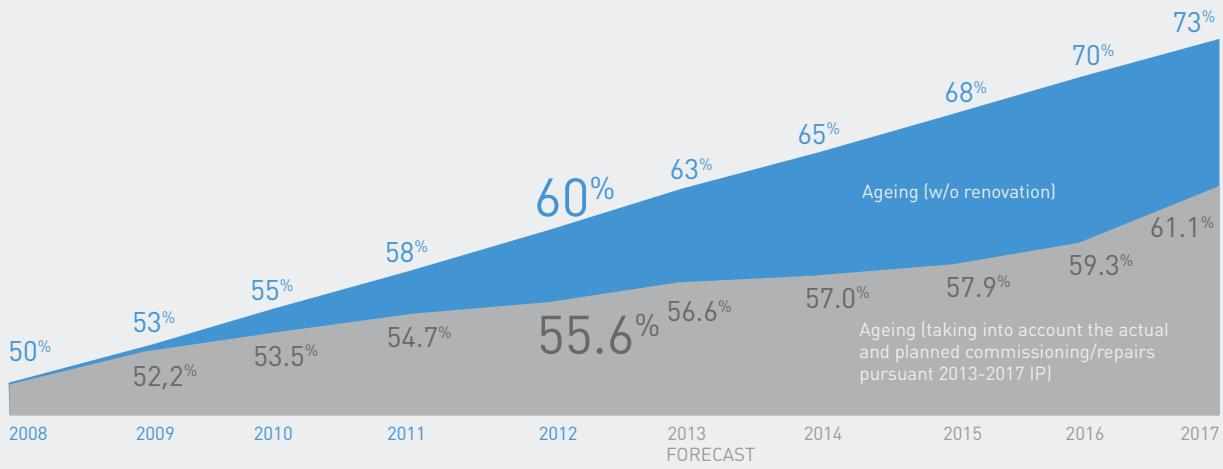
The program for the renovation of the Company's fixed assets as part of the 2013-2017 Investment Program of the Company was approved by the Ministry of Energy of the Russian Federation on October 31, 2012. The renovation program intended to provide for the reliable and efficient operation of the power grid complex implies the commissioning of 31 357 MVA and the reconstruction of 1 231 km of power transmission lines.

The total amount of the Program financing in the period from 2013 to 2017 comprises RUR 194,703 million. The planned complex reconstruction will cover 154 substations and 95 power transmission lines.

In 2012 the implementation of the Company's renovation program resulted in energizing 23 key facilities under complex reconstruction and 20 key facilities under non-complex reconstruction. The most vital facilities under renovation include 220 kV SS Irtysh, 220 kV SS Taksimo and 500 kV SS Arzamasskaya.

Design and Forecasted Ageing of Power Lines, Taking into Account the Changes in the Stable Operation of the Energy System*

(the expected renovation of the power lines, taking into account the new construction is 40 years, with the length exceeding 120,000 km)



In 2013 Federal Grid Company plans to invest RUR 41,208.76 million in the renovation of fixed assets pursuant the Renovation Program. The volume of power commissioned at the facilities under complex renovation will comprise 8,170 MVA.

* During the implementation of the Company's 2013-2017 Investment Program, as approved by the Order No 531 of the Ministry of Energy of the Russian Federation on 31.10.12.2012.

APPENDIX 2.
Innovative Development of the UNEG

The Innovative Development Program

The goal of the UNEG innovative development consists in the establishment of an Intellectual Energy System with an Active-Adaptive Grid (IES AAG) or Smart Grid. The achievement of this goal involves a transfer to the new quality grids based on the use of new principles and processes of energy transmission and transformation. This approach forms a part of the Innovative Development Program of Federal Grid Company for the period till 2016*.

The Program priorities include the development, testing and implementation of the "breakthrough" and the "improvement" technologies at the UNEG facilities. The processes include electric energy storage, high temperature superconductivity, direct current energy transmission and other innovations. The Program is also intended to encourage the Company's system of innovative activities, including the expansion of the Company's research and engineering basis in Russia, attracting foreign partners, and the cooperation with Russian academic and higher education establishments.

Federal Grid Company launched the establishment of the active-adaptive electric power grid in 2010. The active-adaptive electric power grid implies the unification of the power grids, the consumers and the producers of electric energy in a unified automated system. Today the innovative processes and solutions are tested in real time at the existing power grid facilities. The next stage is the establishment of energy clusters used to test the solutions and the element base of the intellectual grid (identification of cons and pros, and of synergy effects from the use of different processes) for further multiplication of these technologies within the UES of Russia.

The Innovative Development Program priorities	Technological effects
Russian UES systemic reliability improvement technologies	— Improving the lightning-surge proofness of the overhead power transmission lines (decreasing the accident rate by 25-30%); — Improving the explosion safety of the electric equipment; — Limiting the short-circuit currents in urban areas (savings on the installation of additional equipment at substations comprised 1.5-2 times); — Increasing the grid's throughput capacity while decreasing the grid's mass and dimensions (HTSC technologies, new type wires for overhead power transmission lines).
The Smart Grid Technologies (improving the Grid's flexibility and controllability)	— Development of electric equipment with controlled electric characteristics (FACTS, RPSC, CSR, etc.); — Development of self-recovery technologies for the power grid equipment and infrastructure; — Development of electric equipment based on power electronics; — The use of electric power storage equipment (optimizing the generation and consumption, saving up to RUR 15 billion annually).

* Federal Grid Company's Innovative Development Program till 2016 with the view till 2020 was approved on April 7, 2011 by the Company's Board of Directors (Minutes No 128, dated 07.04.2011). The Program is based on the Company's Policy for Innovative Development and Modernization and on the Concept (principal provisions) of the Innovative Development Program, approved by the Company's Board of Directors (Minutes No 120, dated 16.12.2010).

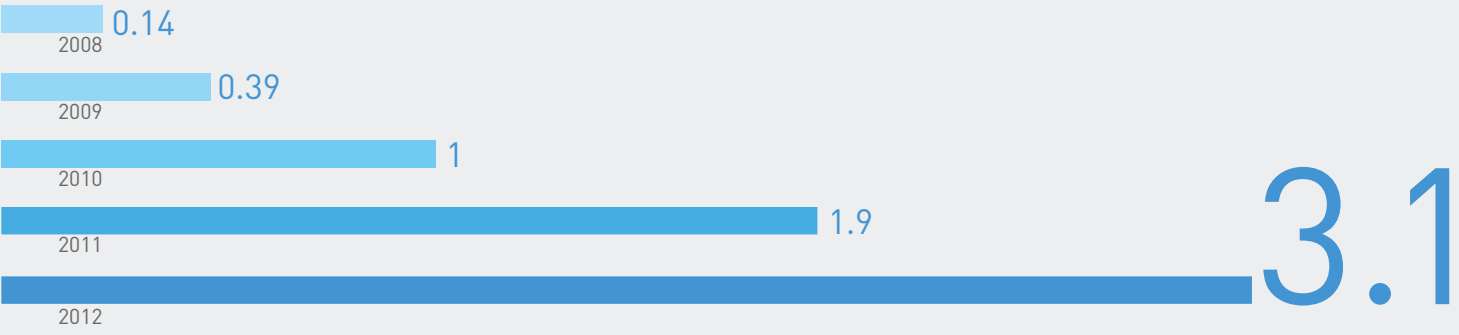
The Innovative Development Program priorities	Technological effects
Reducing the grid's operating costs	— Improving the grid's automatics (preventive control, automatic changing of the grid's characteristics and topology); — Reducing the grid elements installation and repair time.
Lowering the cost of up-to-date, reliable and efficient equipment	—Lowering the cost of equipment (including the cheapening of semi-conductor based power electronics by 2-3% per year).

2013-2017 Research and Development (R&D) Program and related financing costs

Pursuant to the Innovative Development Program the Company suggested to higher education establishments, research and development institutes, the design, production and other industry organizations to participate in the formation of the Company's R&D Program for 2013-2017.

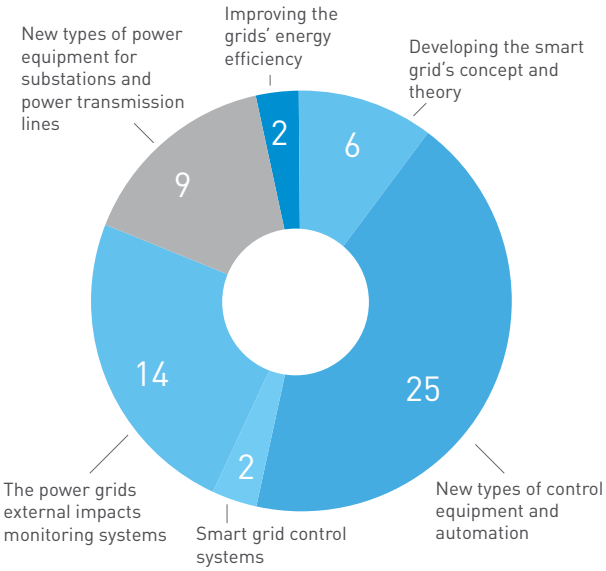
Pursuant to the Company's 2013-2017 Investment Program the financing for the 2013-2017 R&D Program of Federal Grid Company* (hereinafter called the R&D Program) in 2012 comprised RUR 3,100 million. The Company spent RUR 2,913.99 million (or 94% of the planned amount in 2012 and 153.5% compared to 2011).

R&D Program Financing, RUR billion

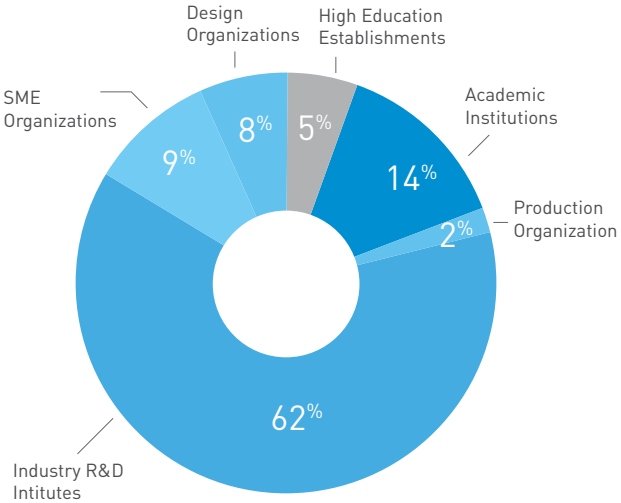


*The Program was approved by the Order No 564 "On the Approval of the 2013-2017 R&D Program of JSC FGC UES" of the Company

R&D Priorities Works



R&D Financing Structure



The Company's Innovative Development Program sets the goals for R&D priorities to be achieved in 2020. The goals to be achieved by 2020 include the following:

— theoretical concepts, models and programs forming the basis of the Smart Grid;

— new types of power equipment for electric power grids, including SF6 insulated switchgear for digital substations, controlled shunt reactors and devices based on high-temperature superconductivity (HTSC), vacuum triggered spark gaps, the grid power storage devices based on accumulators and super capacitors. All equipment should be systematically tested;

— new types of control equipment and automation, protection and metering systems for the Smart Grid, including the Parametric Measurement Units (PMU), the complex systems for the relay and emergency protection automation and the concept for the development and application of the systems of relay protection and automation for the Smart Grid;

— the equipment and theoretical foundations for the Smart Grid control systems, including a pilot Digital Substation test field, the systems for the acquisition and transfer of data and the UNEG condition monitoring system, a general information model of the UES based on MEC standards, a set of programs for the automated control of the Smart Grid, the Smart Grid's architecture and the structure of the unified process control system;

— the experimental prototypes of equipment and systems for the protection of overhead power transmission lines from the external impacts (thunderstorm, ice, pollutions), including high composite towers, ice-resistant nano-composite wires, automatic remote system for direction finding and monitoring of lightning discharge impacting the overhead power transmission lines, the combined installations for ice melting and reactive power compensation, etc.

— the technical solutions pertaining to the improvement of reliability of the power transmission along the UNEG grids, including the classifier, breaking down the consumers into the levels of reliability required, the calculation of the numeric indicators of the reliability of consumers of the electric power transmission services rendered by Federal Grid Company;

— the technical solutions and electric equipment to reduce the losses of energy within the UNEG grids.

The Innovative Development results

Key Performance Indicators of the Program, Describing the Results of the 2012 Innovative Development

Group of indicators	KPI	unit of measurement	Indicator values	
			2012 target	2012 actual
Energy saving and energy efficiency	The share of energy losses vs. the amount of energy supplied to consumers	%	4.7	4.24
Improvement of services rendered	The share of energy undersupplied to consumers in the total amount of energy supplied from the UNEG	%	0.0026	0.0006
Efficiency of Innovative Development	The number of patents resulting from R&D activities in 2012	number	44	64

In 2012 the Company implemented certain elements of the intellectual grid and other innovative solutions at the facilities of Federal Grid Company.

An experimental prototype of the system for continuous monitoring of the transformer overload capacity was commissioned at 500 kV SS Noginsk. The system makes it possible to use automated calculation methods which take into account the latest developments in the field of control over the thermal condition of transformers at low-maintenance 110-750 kV substations. The implementation of the system will contribute to the establishment of fully automatic maintenance-free substations. This is a typical example of the Company's innovative developments with the end results achieved.

The MES Center, a branch of the Company equipped the underground power supply substations of Skolkovo Innovations Center with the newest gas-insulated automatic power transformers. This was the first time such automatic transformers were used at substations operated in urban areas. Compared with the traditional oil-insulated automatic transformers, gas-insulated automatic transformers have a number of advantages. These transformers are completely safe (as they are explosion and fire safe), with sulfur hexafluoride being used as insulating and cooling agent. No less important is an efficient compatibility of such automatic transformers with gas-insulated switchgear, which provides for the compact substation layout. This innovative solution will reduce the cost of construction of the closed-type electric power facilities in urban areas.

The MES Ural, a branch of the Company implemented the newest technology for the strengthening of foundations of 220-500 kV power transmission line towers, using high-strength carbon fiber. The carbon fiber strengthening restores the carrying capacity of the structure completely, blocking the processes damaging the towers. This polymeric material is highly resistant to earthquakes. It is also resistant to chemicals and raptures – the fiber is stronger than metal. Besides, the simplicity of use of carbon fiber reduces repair times, cutting down the repair costs. This new method has been developed by the Yekaterinburg Institute for High-Strength Reinforcement Systems NII VSU INTER/TEK.

The innovations most popular with the Company include suspended polymeric insulators which is far better compared with the traditional porcelain insulators. The polymeric insulators are more hydrophobic, which is important for highly salted territories, such as Perm and Solikamsk. The insulators are also resistant to mechanical and electric loads, while being durable in operation.

Other innovative equipment includes STC-1, a static thyristor compensator of reactive power, an essential element for the establishment of a new generation main power transmission grid.

The towers of new generation high-voltage power transmission lines are made of steel many-sided stands, which are highly reliable and durable. The stands are resistant to ice and wind loads, and corrosion effects. The stands are quick to assemble and install.

The expert assessment of the Innovative Developments

Federal Grid Company is one of the leading companies in the Innovative Development Rating prepared by Expert RA rating agency for state corporations and companies with governmental participation. In the opinion of the authors of the rating, the energy companies are more motivated to develop their competitive advantages, in order to develop their business abroad. In the result, the R&D costs borne by the Russian energy companies are comparable and even exceed those borne by their foreign competitors (FGC UES- 2.64%, Edf – 0.7% and National Grid – 0.1%). The authors of the survey also note that the innovative development program of Federal Grid Company contains a number of breakthrough projects pertaining to the establishment of the intellectual energy system based on the active-adaptive grid. No high and super-high voltage mains can boast such technologies even at the design stage, except those owned by Federal Grid Company.

APPENDIX 3.
GRI Guidelines Indicators (G 3.1 and the Industry Protocol for Electric Power Industry), Reflected in the Report

№	Indicator Index	Indicator Description	Disclosure	Location in the Report	Comments
		Report Element Characteristics			
		1. Strategy and Analysis			
1	1.1.	A message from a person responsible for decision-making and occupying the top position in the hierarchy of the organization (for example the Chief Executive Officer, the Chairman of the Board of Directors, or an equivalent position), publishing the Report, stating the significance of sustainable development for the organization and its strategy.		Message from the Chairman of the Management Board	
2	1.2.	Description of key impacts, risks and opportunities.		Chapter 4	
		2. Description of the Organization			
3	2.1.	Name of the organization preparing the Report		Paragraph1.1	
4	2.2.	The main brands, products and/or services		Paragraph 1.1, 7.1	
5	2.3.	Functional structure of the organization, including main divisions, operation companies, subsidiaries and joint ventures		Paragraph. 1.2	
6	2.4.	Location of the company headquarters		Paragraph 1.1	
7	2.5.	The number of countries of the company operation and the names of the countries where the company's chief operations are located, or those significant from the point of view of sustainable development issues covered by the Report		Paragraph 1.1	
8	2.6.	Proprietary and organizational and legal form		Paragraph 1.1	
9	2.7.	The markets where the organization operates (including geographical scope, the sectors services and the categories of consumers and beneficiaries)		Paragraph 1.1	
10	2.8.	The organization's scale, including: — The number of employees; — The net sales volume (for private sector organizations) or net receipts (for state-owned organizations); — The total capitalization broken down by borrowed and own capital (for private sector organizations); — The quantitative characteristics of products or services		Paragraph 6.1 Paragraph 7.1	
11	2.9.	Essential changes in the scale, structure or proprietary form of the organization during the reporting period, including: — Location or the nature of the change in operations, including opening, closing or extending the operations; — Any changes in the structure of the equity and other actions pertaining to the formation, maintenance or changing the capital (for private sector organizations)		Paragraph 1.1, 1.2	
12	2.10.	Awards received during the reporting period		Paragraph 6.1	
		3. Parameters of the Report			
13	3.1.	Reporting period (for example, a fiscal/calendar year) for the information reported	Full	Annotation	
14	3.2.	Publication date of the last of the preceding reports (if any)		Paragraph 5.3	
15	3.3.	Reporting cycle (annual, biannual, etc.)		Annotation	
16	3.4.	Contact information to enquire about the Report or its content		Contact information	
17	3.5.	The Report content determination process, including: — Determination of relevance; — Determination of the Report priority topics; — Identification of stakeholders considered to be the potential users of the Report		Annotation, Paragraph 10.1, 10.2, 10.3.	The Report content definition process is based on stakeholder dialogues (conducted in 2012-2013) The priority topic (Human Capital Management in Federal Grid Company) is conditioned by the focused attention of stakeholders to this particular aspect of the Company's activity in 2012. The potential users of the Report include the representatives of stakeholders participating in projects implemented jointly with the Company, as well as the Company business partners. The Company employees are among the key users of the Report.

№	Indicator Index	Indicator Description	Disclosure	Location in the Report	Comments
18	3.6.	Limits of the Report (for example, countries, divisions, subsidiaries, leased facilities, joint ventures and suppliers)		Annotation	
19	3.7.	Specify any limits in the scope of the Report		Annotation	
20	3.8.	The grounds for the inclusion to the Report of data on joint ventures, subsidiaries, leased facilities, the transfer of a part of functions to external contractors and other organizational units that can exert considerable influence on the comparability with the preceding reports, and/or other organizations			No grounds
21	3.9.	The methods of measurement of data and calculations, including assumptions and methods used to assess the indicators and other data included into the Report		Annotation	The Report mostly includes the data obtained in the result of direct measurement. In some cases (for example, to calculate the volume of green gas emissions) indirect calculation methods were used, based on the rated values of individual parameters
22	3.10.	A description of the meaning of any re-definitions of the information contained in preceding reports, and of the grounds for such re-definitions (for example, mergers or acquisitions, changes in the reporting cycles, the nature of business and the evaluation methods)			No re-definitions are available
23	3.11.	Essential changes as compared with preceding reporting cycles, pertaining to the scope, the limits, and the methods of measurement used in the Report			The limits of the Report are unchanged
24	3.12.	The table listing the position of standard elements in the Report		Appendices 3	
25	3.13.	The policy and practical approaches used for the external approval of the Report. If no approval report is attached to the Sustainable Development Report, describe the subject and grounds for any external approval obtained. Describe also the nature of relationships between the reporting organization and the approving authority		Chapter 10	
		1.Governance, Liabilities and Interaction with Stakeholders			
26	4.1.	The organization's governance structure, including main committees included into the supreme governing body, responsible specific tasks, for example, for the development of strategy or for overall supervision over the operations of the organization		Paragraph 2.1	
27	4.2.	Specify, whether the chairman of the supreme governing body is simultaneously an executive manager of the company (if so, provide details on the role of this manager in the organization's governance and what are the reasons for such state of affairs)		Paragraph 2.1	
28	4.3.	Specify the number of non-executive members of the supreme governing body, and/or the members who do not belong to the executive management of the company (for organizations having a unitary Board of Directors)		Paragraph 2.1	
29	4.4.	The mechanisms used by the shareholders or the employees of the organization to direct the activities of the supreme governing body, or to give recommendations to it		Paragraph 2.1	
30	4.5.	A dependence between the payments to the members of the supreme governing body, the executive top managers and senior managers (including severance pay) and the organization's performance results (including social and environmental performance results)		Paragraph 2.2	
31	4.6.	The processes existing within the supreme governing body, used to prevent the conflict of interests		Paragraph 2.1	
32	4.7.	The processes used to determine the qualification and competencies of the members of the supreme governing body, required to direct the organization's strategy, including the economic, environmental and social performance results			In accordance with the Policy on HR and Remuneration Committee of the Board of Directors of Federal Grid Company, the competencies of the Committee include the development of suggestions to determine the essential conditions of agreements with the members of the Company's Board of Directors. Besides, the Committee determines the criteria for the selection of candidates to the members of the Company's Board of Directors, and performs a preliminary assessment of said candidates
33	4.8.	Internally developed mission, statement of values, corporate codes of conduct and principles essential from the point of view of economic, environmental and social performance results, and the degree of their practical implementation		Paragraph 1.3	
34	4.9.	The procedures used by the supreme governing body to supervise over the organization's assessment of its economic, environmental and social performance and to govern the above, including risks and opportunities, and the adherence or compliance with the international standards, the codes of corporate conduct and principles		Paragraph 2.1	

№	Indicator Index	Indicator Description	Disclosure	Location in the Report	Comments
35	4.10.	The processes of performance assessment of the supreme governing body in connection with the economic, environmental and social performance results of the organization		Chapter 2	
36	4.11.	Explanation of whether the organization applies the precautionary principle and how		Chapter 9	
37	4.12.	Externally developed voluntary economic, environmental and social charters, systems of principles or other initiatives joined or supported by the organization		Chapter 9	
38	4.13.	The membership in associations (industry associations, for example) and/or national and international organizations on the protection of interests, where the organization: — occupies a position in governing bodies; — participates in projects or committees; — provides material financing beyond the membership contributions; — considers its membership to be strategic			Federal Grid Company is a member of RaEl Association. The activities of 16 research committees of SIGRE are part of Federal Grid Company's competency. The participation in the work of these committees contributes to the sharing of experience and information in the field of innovative developments pertaining to electric power equipment, its diagnostics and modernization and a number of other issues related to the functioning of the global electric power systems.
39	4.14.	A list of stakeholders involved in interaction with the organization		Chapter 10	
40	4.15.	The grounds for the identification and selection of stakeholders for the purpose of further interaction with them		Chapter 10	Decisions pertaining to the interaction with stakeholders are made by the Company management based on the fundamental concept of the Company responsibility (subparagraph 5.1) and the understanding of the Public Agenda in the field of sustainable development (subparagraph 5.2). The evolution of the approach to the interaction with stakeholders is presented in subsection 5.3 of this Report.
41	4.16.	Approaches to the interaction with stakeholders, including interaction periodicity by stakeholder types and groups		Chapter 10	
42	4.17.	The key topics and interests raised or identified in the process of interaction with the stakeholders and how the organization responded to said topics and interests, including the organization's reporting		Chapter 10, APPENDIX 5	
		2. Information on Management Approach and Performance Indicators			
		Economic Performance Indicators			
43	EC1	Created and distributed economic value, including income, operating costs, employee payments, donations and other community investments, undistributed profit, payment to capital suppliers and countries	Full	Paragraph 7.1	
44	EC3	Provision for the organization's liabilities related to pension plans and benefits set	Partial	Paragraph 6.4	
45	EC5	The range of entry level salary vs the preset minimal salary in the key regions of operation	Full	Paragraph 6.1	
46	EC6	The policy and practical approach to the purchasing from local suppliers and the share of such purchases in the significant regions of operation of the organization	Full	Paragraph 7.1	
47	EC7	Procedures for the hire of local personnel and the share of top managers hired locally in the significant regions of operation of the organization	Full	Paragraph 6.1	
48	EC8	The development and impact of investments in infrastructure and services rendered for the public in the first place, by way of natural, commercial or charitable participation	Partial	Chapter 7	
		Environmental Performance Indicators			
49	EN2	The share of materials produced from processed or recycled wastes	Full	Paragraph 9.2	
50	EN5	The energy saved in the result of initiatives on reducing energy consumption and increasing energy efficiency	Full	Paragraph 9.3	
51	EN8	The quantity of water intake, broken down by sources	Full	Paragraph 9.2	
52	EN9	The water sources influenced by the organization's water intake	Full	Paragraph 9.2	

№	Indicator Index	Indicator Description	Disclosure	Location in the Report	Comments
53	EN10	The share and total volume of water used repeatedly and reused	Partial	Paragraph 9.2	
54	EN11	The location and the area of lands owned, leased, or managed by the organization, and located on natural territories and on territories with valuable biological diversity beyond them or adjoining such territories	Full	Appendices 6	
55	EN12	The description of material impacts of activities, products, and services on the biological diversity on the protected natural territories and on the territories with valuable biological diversity beyond them	Full	Paragraph 9.2	
56	EN13	The preserved or recovered habitats	Full	Paragraph 9.2	
57	EN14	The strategies, implemented actions and future plans pertaining to managing the impacts on biological diversity	Full	Paragraph 9.2	
58	EN15	The number of species entered into the International Union for Conservation of Nature Resources' Red List and into the national list of protected species, with habitats located on the territory affected by the organization's operation, broken down by the degree of threat to the existence of said species	Full	Paragraph 9.2	
59	EN16	Full, direct and indirect emissions of greenhouse gases, specifying their mass	Partial	Paragraph 9.2	
60	EN17	Other essential indirect emissions of greenhouse gases, specifying their masses	Full	Paragraph 9.2	
61	EN18	The initiatives on greenhouse gas emission reduction and their results	Partial	Paragraph 9.3	
62	EN19	The emission of ozone-destructive substances, specifying their masses	Full	Paragraph 9.2	
63	EN20	Emission of NOX, SOX and other heavy pollutants to the atmosphere, specifying their masses	Full	Paragraph 9.2	
64	EN21	The total amount of drainage, specifying the quality of waste waters and the receiving facility	Full	Paragraph 9.2	
65	EN22	The total amount of wastes broken down by type and handling method	Partial	Paragraph 9.2	
66	EN23	The total amount and the volume of essential spillages	Full	Paragraph 9.2	
67	EN24	The mass of transported, imported, exported or processed wastes which are considered hazardous pursuant to Appendices I, II, III and VIII to the Basel Convention, and the share of wastes transported between the countries	Full	Paragraph 9.2	
68	EN25	The ownership, size and biological diversity protection status of water bodies and related habitats, which are influenced by the organization's discharge and the surface water from the territory of the organization's facilities	Full	Paragraph 9.2	
69	EN26	The initiatives to mitigate the environmental impact of products and services and the resulting mitigation scale	Full	Paragraph 9.2	
70	EN27	The share of sold products and related packaging returned to the manufacturer for recycling, broken down by categories	Full	Paragraph 9.2	
71	EN28	The material fines in money terms and the total number of non-financial sanctions imposed for non-compliance with the environmental laws and the normative requirements	Full	Paragraph 9.1	
72	EN29	Any material environmental impact of transportation of products and other goods and materials used for the operations of the organization and for the transportation of the workforce	Full	Paragraph 9.2	
73	EN30	The total costs and investments in environmental protection, broken down by types	Full	Paragraph 9.2	
		Labor Organization Approach and Decent Work			
74	LA1	The total number of employees broken down by employment type, labor contract and region	Full	Paragraph 6.1	
75	LA2	The total number of employees and employee turnover rate broken down by age, sex and region	Partial	Paragraph 6.1	
76	LA4	The share of employees covered by the collective bargaining agreements	Full	Paragraph 6.1	
77	LA7	The level of occupational traumatism and occupational deceases, the lost workdays ratio and the absence from work ratio, and the total number of work-related lethal incidents, broken down by regions	Partial	Paragraph 6.5	
78	LA10	The average number of training hours per an employee annually, broken down by employee category	Partial	Paragraph 6.3	
79	LA12	The share of employees periodically assessed in terms of their performance and career development	Partial	Paragraph 6.1	
80	LA13	The composition of the organization's governing bodies and personnel broken down by sex and age, specifying the minority representatives, and other diversity indicators	Full	Paragraph 6.1	

№	Indicator Index	Indicator Description	Disclosure	Location in the Report	Comments
		Indicators Pertaining to Human Rights			
81	HR1	The percentage and the total number of material investment agreements, including the human rights provisions or assessed from the point of view of human rights	Full		The Company's investment agreements were not verified and assessed from the point of view of human rights
82	HR2	The share of significant suppliers and contractors assessed from the point of view of human rights, and actions taken	Full		Suppliers and contractors were not assessed from the point of view of human rights. Their share is 0%
83	HR6	The activity bearing a considerable risk of children's labor, and the actions taken to eliminate it	Full		Not applicable due to advanced level of production and strict requirements as to the occupational training of employees.
84	HR7	The activity bearing a considerable risk of forced or mandatory labor, and actions taken to eliminate the forced or mandatory labor	Full		Not applicable
		Indicators Pertaining to the Interaction with the Public			
85	SO4	The actions taken to fight corruption	Full	Paragraph 8.3	
86	SO5	The position in relation to the state policy and the participation in the formation of the state policy and lobbying	Full	—	The Federal Grid Company participates in the formation of the state policy by preparing petitions to the government of the Russian Federation, the chambers of the Federal Assembly of the Russian Federation, and the federal executive authorities. The petitions contain suggestions to the drafts of normative regulations being considered by the federal authorities listed above. The Company representatives substantiate their suggestions, participating in work groups established by federal executive authorities, the committees and commissions established by the Federation Council and the State Parliament. These activities result in the preparation of drafts of federal laws, governmental decrees and normative regulations of the federal executive authorities. The drafts take into account the specific features inherent to the functioning and development of the electric power grid facilities. The drafts are prepared in accordance with law development plans of the legislative and executive authorities.
		Product Responsibility Indicators			
87	PR5	The practices pertaining to the customer satisfaction, including the results of customer satisfaction degree surveys	Full	Paragraph 7.1	
		Indicators of GRI Industry Protocol for Electric Power Industry			
		The Organization's Area of Business			
88	EU3	The number of business accounts of household, industrial, institutional and commercial customers	Partial	Paragraph 1.1	
89	EU6	The governing method providing for the operational preparedness and the reliability of electric power supplies in short, middle and long term	Full	Appendix 1, Appendix 2	
90	EU8	Scientific research and developments intended to provide for the reliable supply of power and to contribute to sustainable development, plus related costs	Full	Appendix 2	
91	EU12	The losses of electric energy during transmission in terms of percentage of the total volume of the electric energy	Partial	Paragraph 1.1	
		Environmental Section			
92	Aspect – Materials	Long-term strategy to gradually stop using the materials with high and low content of polychlorinated biphenyl	Full	Paragraph 9.3	
93	Aspect – Water	The drainage basins and reservoirs management methods to provide for the complex usage (for example, for irrigation, drinking water supply, environment protection, etc.). The long-term plans for the protection of water resources in order to provide for the needs of the organization. The description of criteria for controlling the maximal/minimal inflow of surface waters and the volume of ground waters, and the method to identify and maintain these indicators	Full	Paragraph 9.3	
94	Aspect – Biological Diversity	The methods of protection of greenery from blights and to control the greenery along the power transmission and distribution lines	Partial	Paragraph 9.2	

№	Indicator Index	Indicator Description	Disclosure	Location in the Report	Comments
95	Aspect - Emissions, liquid industrial wastes and production wastes	The management strategy and the methods of storage of different types of radioactive nuclear wastes	Full	Paragraph 9.2	
96	CommEN20	NOx, SOx and other essential emissions to the atmosphere per a MWh of the net volume of the electric energy produced. The examples of "other essential emissions to the atmosphere", include but are not limited to the emissions of mercury, coal dust, ash sediment ponds and traps and dust generated during the dewatering of a water body	Partial	Paragraph 9.2	
97	CommEN22	The total mass of wastes by type and method of removal of wastes, including PCB wastes		Paragraph 9.3	
		Social Section			
98	EU14	The programs and processes providing for the availability of qualified workforce	Full	Paragraph 6.1	
99	EU16	The policy and requirements regarding the health and safety of employees and of the contracted and subcontracted employees	Partial	Paragraph 6.5	
		Social Responsibility (Governance Methods)			
100	EU19	The participation of stakeholders in decision-making process, said decisions relating to the planning of development of the Unified (all-Russian) National Energy Grid	Partial	Paragraph 10.1	

APPENDIX 4. A Report on the Fulfillment of the 2012 CSR Plans and Obligations of Federal Grid Company (Draft)

Plans and Obligations	Completion Report	Comments
1. Preparation of the 2012 Corporate Social Responsibility and Sustainable Development Report of Federal Grid Company at A+ compliance level (GRI Guidelines)	Not completed	
2. Approval and launch of the Company's Anticorruption Policy	Completed	The information is to be found in Chapter 8
3. Improving the corruption prevention system, legal education and the formation of the fundamentals for the law-abiding behavior of the Company employees	Completed	The information is to be found in Chapter 8
4. Implementation of the System for Anticorruption Control of the Company purchasing operations	Completed	The information is to be found in Chapter 8
5. Implementation of anticorruption expert assessment of all organizational and administrative documents of the Company's executive body	Completed	The information is to be found in Chapter 8
6. Implementation of a universal procedure for conducting anticorruption expert assessment of documents in the Company branches and SDCs	Completed	The information is to be found in Chapter 8
7. Establishment of the Young Specialists Council of the Company	Not completed	
8. Establishment of the competency centers based on higher education establishments	Not completed	
9. Implementation of the 2012-2013 pilot project of Corporate Housing Program. The Program includes 397 housing premises in five Company branches in 11 subjects of the Russian Federation	Completed	The information is to be found in Chapter 8
10. The Company will prepare stakeholder communication plans to discuss and solve the issues on the Public Agenda of the CSR and sustainable development. The plans will be ready by the end of 2012 and the Company will report on them in the next 2012 non-financial report (an obligation from the 2010 Report left unfulfilled).	Not completed	Completion postponed to 2013

APPENDIX 5. A Table of Stakeholders' Suggestions Pertaining to the Disclosure of Information in the Report, Voiced at the Dialogue on 05.04.2013 and at the Public Hearings on 26.04.2013.

№	The Description of the Stakeholders' Suggestions	As Disclosed in the Report
	Suggestions on the Disclosure of Information in the 2012 Report	
	Recommendations suggested by the representatives of higher education establishments	
1	To include the information on the changes in HR management (if any) pursuant to the new state regulation requirements in line with ISO, ISAE, OHSAS, etc. standards (in connection with joining the WTO)	The information will be acquired during the preparation of the 2013 Report
2	To include the personnel involvement assessment	The information will be acquired during the preparation of the 2013 Report
3	To include the analysis of HR lifts	The information will be acquired during the preparation of the 2013 Report
4	To describe the cooperation of Federal Grid Company with the Ivanovo State Energy University and other higher education establishments	Paragraph 6.2
5	To include a paragraph on the provision of occupational health and psychological training of employees	The information will be acquired during the preparation of the 2013 Report
6	To describe an approach to the development of the production culture	The information will be acquired during the preparation of the 2013 Report
7	To include the information on the development of occupational standards	The information will be acquired during the preparation of the 2013 Report
8	To disclose the information on the Company interaction with the academic scientific community and the collegial university government bodies, and with expert councils attached to the partner higher education establishments	Paragraph 6.2
9	To describe the students support mechanisms in the regions, meaning education payments, social benefits, etc.	The information will be acquired during the preparation of the 2013 Report
10	To disclose the information on the Company's scholarship programs for students	The information will be acquired during the preparation of the 2013 Report
	Recommendations suggested by the representatives of the state authorities	
11	To include the data on working efficiency calculations	The information will be acquired during the preparation of the 2013 Report
12	To assess the HR reserve turnover	The information will be acquired during the preparation of the 2013 Report
13	To include the statistical data on the decrease of failure rate or the increase of reliability in the result of training, as an indicator of the training quality	The information will be acquired during the preparation of the 2013 Report
14	To include the indicators of training centers' efficiency	The information will be acquired during the preparation of the 2013 Report
15	To describe an approach to talent management	The information will be acquired during the preparation of the 2013 Report
	Recommendations suggested by the environmental protection organizations	
16	To disclose the statistical data on birds mortality rate resulting from the operations of Federal Grid Company	Paragraph 9.2
17	To describe the indirect hothouse gas emissions calculation method	Paragraph 9.2
18	To disclose the information on all compensation initiatives in "The Key Environmental Impact Indicators" section under "Impacts on the Flora and Fauna, and the Soils" provision	Paragraph 9.2
19	To improve the content of sections describing biological diversity, the natural areas under preferred protection and birds mortality	The information will be acquired during the preparation of the 2013 Report
20	To describe the "Impact on Biological Diversity" in "The Environment Protection Company Initiatives" section in greater detail	The information will be acquired during the preparation of the 2013 Report
	Recommendations suggested by the experts and business community	
21	To include the information on HR management KPIs	Paragraph 6.5
22	To list the key HR management documents	Paragraph 6.1
23	To describe the comprehensive and continuous leadership's approach to HR management and to emphasize the goals for the investments in human capital	The information will be acquired during the preparation of the 2013 Report

№	The Description of the Stakeholders' Suggestions	As Disclosed in the Report
24	To focus on high-performance workplaces, stressing the fact that an increase in working efficiency is not possible without the workforce reductions (to show that the Company analyses the situation)	The information will be acquired during the preparation of the 2013 Report
25	To describe the activities pertaining to the development of competency profiles and position certificates	The information will be acquired during the preparation of the 2013 Report
26	To describe the employee assessment procedure in place for HR reserve	Paragraph 6.1
27	To explain, whether there is a division into the promising reserve (young specialists) and the reserve composed of experienced employees	Paragraph 6.1
28	To describe how the HR reserve formation experience acquired in the past (from 2006) is used today	Paragraph 6.1
29	To include the HR reserve dynamics numbers	Paragraph 6.1
30	To describe the effects of the HR reserve members assessment on the development of occupational standards	The information will be acquired during the preparation of the 2013 Report
31	To explain (if necessary) if there is a division in Federal Grid Company between the labor protection and labor safety training	The information will be acquired during the preparation of the 2013 Report
32	To include the information on special training (if any) on document development	The information will be acquired during the preparation of the 2013 Report
33	To include the information on the Company participation in the presidential program on engineer training and whether any of the subprograms are implemented jointly with higher education establishments	The information will be acquired during the preparation of the 2013 Report
34	To provide information on the implementation of the behavioral audits in the Company (if any)	The information will be acquired during the preparation of the 2013 Report
35	To describe the employee loyalty assessment program results, including the things employees like and those they do not, and the Company's response	The information will be acquired during the preparation of the 2013 Report
	Recommendations suggested by the representatives of the industry organizations	
36	To include the information on the number of employees in need of housing conditions improvement, and to describe the interaction of such employees with the Company management	The information will be acquired during the preparation of the 2013 Report
37	To provide information on the waste disposal procedures adopted by the Company, and whether the waste disposal contractors comply with the international environment protection standards	Paragraph 9.2
38	To include the Company employee satisfaction survey results, specifying the mechanisms used during the survey	The information will be acquired during the preparation of the 2013 Report
39	To describe the conflict settlement procedures adopted by the Company	The information will be acquired during the preparation of the 2013 Report
40	To complement the Report with the information on the internal HR substitution ratio and working efficiency	The information will be acquired during the preparation of the 2013 Report
41	To disclose the information on labor compensation fund	The information will be acquired during the preparation of the 2013 Report

APPENDIX 6. A List of Natural Areas in Preferential Protection (NAPP) Accessible for Federal Grid Company for the Purposes of Operation

№	Federal Grid Company Facility	Land area, hectares	A type of title to the land	Location (RF region, city, etc.)	Name of NAPP
	MES of Center				
	Upper Don PMES				
1	220kV HVL Voronezhskaya 1.2 (11.944km)	35.8	Leased	Russia, Voronezh Region, Verkhnehavsky District	The Voronezh State Natural Biospheric Reserve
	Volga-Don PMES				
2	500 kV HVL Balashovskaya-Lipetskaya (8.468km, supports NN 894-9150)	0.3157	Leased	Novokhopersk District, Voronezh Region	The Khoper State Natural Reserve
3	500 kV HVL Balashovskaya – Lipetskaya 2 (with a branch to Novovoronezhskaya NPP), 8.777 km, supports NN 894-916.	0.8406			
	Moscow PMES				
4	220 kV Kashira-Oka 1,2	11.97	In actual use	Moscow Region, Serpukhov District	The Prioksky Terrace State Biospheric Reserve
	Priokskoye PMES				
5	500 kV HVL Smolenskaya NPP – Kaluzhskaya	0.984	In open-ended permanent use	Kaluga Region, Ukhnovsky District	Ugra National Park
6	220 kV HVL Cherepet – Liteinaya	0.135	Leased	Kaluga Region, Kozelsky District	Kaluga Blaze Reserve
7	220 kV HVL Cherepet – Tsementnaya	0.051			
8	500 kV HVL Smolenskaya NPP - Mikhailovskaya	2.912	Leased	Kaluga Region, Uljanovsky District	
	Chernozemnoye PMES				
9	500 kV HVL Novobryanskaya – Yelets (commissioned in 1997, supports NN 212-308, 26.5km long)	185.5	Leased	Orel Region, Khotynetsky District	Orel Forest National Park
	MES Siberia				
	Khakasskoye PMES				
10	500 kV HVL Sayano-Shushenskaya HPP – Novokuznetskaya (HVL-541)	26.61	Leased	Republic of Khakassia	Shoria National Park
11	500 kV HVL Sayano-Shushenskaya HPP – Novokuznetskaya (HVL – 542)				
12	220 kV HVL Shushenskaya Backbone – Minusinskaya Backbone (D-37/38)	0.07488	Leased	Krasnoyarsk Region	Shushenskoye Pine Wood National Park
13	220 kV Shushenskaya Backbone – Turan (D-46)				
	Zabaikalskoye PMES				
14	220 kV HVL Mysovaya – Vydrino (HVL-273)	3.5418	Leased	Republic of Buryatia	The Baikal State Natural Biospheric Reserve
15	220 kV Mysovaya – Baikalskaya (HVL-274)				
16	500 kV HVL Irkutsk – Gusinoozersk SDPP				
	MES East				
	Khabarovskoye PMES				
17	220 kV double-circuit HVL Khekhzir-Gidroliznaya with a branch to Kruglikovo/t SS L-227 and Khekhzir – Dormidontovka/t with a branch to Kruglikovo/t L-228 from support 14 till support 38	48.0	Leased	Khabarovsk Region	Bolshekhekhzirsky State Natural Reserve

№	Federal Grid Company Facility	Land area, hectares	A type of title to the land	Location (RF region, city, etc.)	Name of NAPP
	MES Urals				
	South Ural PMES				
18	500 kV HVL Zlatoust-Chelyabinskaya	22.7 (protected zone), 0.5865 (under supports)	Leased	Chelyabinsk District, Miass City County	The Ilmen State Reserve named after V.I. Lenin (the Ural Branch of the Russian Academy of Sciences))
	Permskoye PMES		Leased		
19	500 kV HVL Votkinskaya HPP - Vyatka	0.064		Udmurtia Republic, Votkinsky District	Netchkinsky National Park
	MES South				
	Rostovskoye PMES				
20	330 kV HVL NchSDPP - Yuzhnaya	2.0637	Leased	Rostov Region, Kuibyshevo District	Lysogorka
21	220 kV HVL R20-T10	0.5356	Leased	Rostov Region, Myasnikovsky District	Kamennaya Balka
22	220 kV HVL R30 – T15	1.2435	Leased	Rostov Region, Myasnikovsky District	Tchulekskaya Balka
23	500 kV HVL – 509 Rostov NPP Shakhty	0.2719	Leased	Rostov Region, Volgodonsk	Dendrological Park
24	220 kV HVL NchSDPP - NZB	0.1905	Leased	Rostov Region, Oktyabrsky District	Persianovskaya Steppe Reserve
25	220 kV HVL Pogorelovo - Donetskaya	0.0339446	Leased	Rostov Region, Kamensky District	Glubokaya River Chalk
26	500 kV HVL – 509 Rostov NPP - Shakhty	0.6612	Leased	Rostov Region, Tsimlyansk District	Donskoi Natural Park
27	220 kV HVL Central SDPP – SH30	0.40525	Leased		
28	500 kV HVL – 505 Rostov NPP - Tikhoretsk	0.9328	Leased	Rostov Region, Proletarsky District	Veselovskoye Water Reservoir and Manych-Gudilo Lake
29	ВЛ 220 кВ РП Волгодонск - Сальск	1.4255	Leased		
	Stavropolskoye PMES				
30	330 kV SS Mashuk	5.5107	Leased	Stavropol Region, Pyatigorsk	Located on health resort grounds
31	330 kV HVL -03 HPP-2-Mashuk	0.0662	Leased	Stavropol Region, Zheleznovodsk	Located on health resort grounds
32	330 kV HVL – 04 Mashuk – Prokhladnaya. The land area is part of a populated locality	0.0662	Leased	Stavropol Region, Zheleznovodsk	Located on health resort grounds
	Sochinskoye PMES				
33	220 kV HVL Psou-Poselkovaya with 220 kV SS Poselkovaya	10.66	Servitude	Krasnodar Region, Sochi National Park	Sochi National Park
34	500 kV HVL Vardane-Psou Section till the Georgian Border	3.0917	In use	Krasnodar Region, Sochi, Central, Lazarevsky, Khosta, and Adler Districts	Natural areas in preferential protection
35	220 kV overhead HVL 220 kV SS Psou, support No 47 (11.06km to the Georgian border)	0.229368	In actual use	Krasnodar Region, Sochi, Adler District	Natural areas in preferential protection
36	220 kV overhead HVL, 220 kV SS Psou, support No 47 (0.67 km to the Georgian border)	0.02542	In actual use	Krasnodar Region, Sochi, Adler District	Natural areas in preferential protection
37	220/110/10 kV SS Dagomys – the land is a part of a populated locality	3.86	In actual use	Krasnodar Region, Sochi, Lazarevsky District and Dagomys	Located within the second zone of the mountain-sanitary protection county
38	220/110/10 kV Psou – the land is a part of a populated locality	2.59	In actual use	Krasnodar Region, Sochi, Adler District, Veseloye Village	Located within the second zone of the mountain-sanitary protection county
	MES Volga				
	Nizhegorodskoye PMES				
39	500 kV HVL Ulianovskaya Severnaya (24.5km) 500 kV HVL Ulianovskaya Yuzhnaya (24.4km)	244.4	Leased	Republic of Mordovia, Ichalkovsky District	Smolny National Park
	Mid-Volga PMES				
40	500 kV HVL Volzhskaya HPP named after Lenin – Veshkaima (Kuibyshevskaya-Yuzhnaya) (14.91km)	1.481 hectares under the supports	Leased	Samara Region, Stavropol District, Zhigulevsk	Samarskaya Luka National Park

№	Federal Grid Company Facility	Land area, hectares	A type of title to the land	Location (RF region, city, etc.)	Name of NAPP
	Lower Volga PMES				
41	220 kV HVL Saratov HPP – Kubra (2.52km)	4,5 hectares under the supports	Leased	Saratov Region	Kvalynsky National Park
	MES North-West				
	Karelskoye PMES				
42	L-397 330 kV HVL Kolskaya NPP – Monchegorsk, supports NN 91-105 (10 intermediate supports and 4 anchor supports) on the territory of the reserve. L-398 330 kV HVL Kolskaya NPP – Monchegorsk, supports NN 88-102 (10 intermediate supports and 4 anchor supports) on the territory of the reserve.	0.515	Leased	Monchegorsk District, Murmansk Region (western part of Kolsky peninsula)	The Lapland State Biospheric Natural Reserve
43	L-392 330 kV HVL Kondopoga - Petrozavodsk, supports NN 81-90, (3 anchor and 6 intermediate supports) 35 kV cable HVL Laskelya – Valaam No1, 632 wooden supports, 90 anchor supports and 542 intermediate supports	0.16	Leased	Kondopoga District, not far from Kondopoga city, near Marzialnye Vody Settlement	Sanitary protection county, termed as Marzialnye Vody Sanatorium health resort forests
44	35 kV cable HVL Laskelya – Valaam No1, 632 wooden supports, 90 anchor supports and 542 intermediate supports	0.162	Leased	Located in Sortavala District of Karelia Republic, in the northern part of Ladoga Lake, in 22 km from the mainland	Valaam Archipelago Natural Park
	35 kV SS Valaam	0.130			
	6kV DPP Valaam	0.232			

INDEPENDENT ASSURANCE OF SOCIAL REPORTING

Addressed to Open Joint Stock Company "Federal Grid Company of Unified Energy System" and its stakeholders.

Introduction

This audit assurance refers to the public report on social responsibility and corporate sustainability of Federal Grid (hereinafter - the Report) based on 2012 FY results. The report prepared by Federal Grid (hereinafter - the Company), which is responsible for the preparation, compilation and presentation of all information in the Report. Within the agreed task CJSC Bureau Veritas Certification Rus bears responsibility only to the Company for the results of work on limited assurance of the Report and does not assume responsibility to any party for decisions made, deferred or withdrawn on the basis of the assurance.

Objectives and Criteria for Assurance

Work on the assurance of the Report is performed on the basis of a formalized methodology of assurance standards AA1000 Assurance Standard (AS) 2008 and audit of non-financial reporting ISAE 3000.

While working on the Report the following problems were set and solved:

1. To assess compliance with the principles of inclusivity in the Report, materiality and responsiveness, described in AA1000 Accountability Principles Standard (APS) 2008.

2. To assess the level and quality of stakeholder`s engagement in the preparation of the Report in accordance with AA1000 Stakeholder Engagement Standard (SES) 2011.

3. To assess the degree of the implementation of principles by the Company to determine the content and quality of the Report on Global Reporting Initiative Sustainability Reporting Guidelines, including the context of sustainable development, the complete coverage of material topics and indicators, balance, comparability and accuracy etc.

4. To assess the degree of compliance of the Report with B+ level of the Global Reporting Initiative Sustainability Reporting Guidelines, declared by the Company.

5. To make recommendations on the preparation of corporate public non-financial reporting for future periods.

Type and Level of the Assurance

The assurance of the Report is based on the following provisions of AA 1000AS (2008) standard:

— the type of assurance - 2 ("Type 2 - AccountAbility Principles and Performance Information"), which provides for assessment of the degree of compliance of the above accountability principles in the aggregate with the assessment of the reliability of performance indicators (data, statements) included in the Report;

— the level of assurance - "moderate".

Methodology and Scope of Work Performed on the Assurance

— Interviews with the Company`s management` representatives to clarify how the Company accounts for key aspects of corporate social responsibility in forming long-term business development strategy and how these aspects are integrated into the Company`s business processes system.

— Interviews with key personnel of the Company, involved in the preparation of various sections of the Report, to confirm the fairness of the statements and information in the Report.

— Verification of the objectives` implementation in the field of corporate social responsibility for 2012 set by the Company in 2010-2011reports.

— Verification of documents (regulations, guidelines, etc.) and information (including the primary sources of information), which characterize the results of responsible business practices in the

field of corporate social responsibility.

— Assessment of the effectiveness of economic, environmental and social aspects of managerial approaches applied by the Company.

— Verification of the Company`s communications with stakeholders in the reporting period, including via the presence of the representatives of Bureau Veritas Certification Rus at public events with stakeholders to assess the criteria and procedures for selection of material economic, social and environmental aspects to be included in the Report.

— Verification of the processes, used by the Company, of the collection, consolidation, processing, analysis and documentation of information included in the Report.

— Study of documents based on the results of the Company and stakeholders dialogue (information materials, lists of participants, minutes of meetings, changes and additions made to the Report on the results of these events.)

— Analysis of data extract from mass media and Internet resources with references to the Company's activities in the field of assurance, and published statements of third parties which characterize the Company's commitment to the values of corporate social responsibility as an evidential base to verify the feasibility of the statements in the Report.

— Review of the preliminary version of the Report to identify possible inaccuracies, contradictions and unfounded statements.

— Verification of the compliance of the information published on the Company`s corporate website with standards AA1000APS (2008), AA1000SES (2011) and the GRI`s recommendations.

Verification of the adequacy of presented statements, applications and information in the Report was carried out using the following procedures:

— participation of a representative of Bureau Veritas Certification Rus in the Company's dialogue with stakeholders (April 5, 2013) and public hearings on the Report (April 26, 2013);

— visit of assurer the Company`s headquarters in May 2013, interviews with managers and specialists on environmental management, occupational health and safety, social and personnel policies and corporate communications;

— visit of assurer the Company`s branch MES of the Center in May 2013, interviews with managers and specialists on issues of the branch`s participation in the preparation of information for the Report.

In preparing assurance, in addition to the Report`s information, the information published on the corporate website http://www.fsk-ees.ru/, as well as materials of mass media, including news agencies ITAR-TASS, Interfax, RIA Novosti, RBC, Finam.Ru, federal newspapers "Kommersant Ъ", Komsomolskaya Pravda, corporate newspaper "Unified Grid" were used.

Scope of Assurance

— Assurance was not conducted with respect to performance indicators, beyond the timeframe of the current 2012 reporting cycle.

— Assurance was not conducted with respect to financial performance, verified by other independent audit organizations.

— Assurance did not extend to the opinions, assumptions, suggestions or intentions of the Company to take any actions in the future.

— Assurance did not include the performance indicators of Global Reporting Initiative Sustainability Reporting Guidelines, recognized irrelevant by the Company at the time of preparing this Report.

— The work on the assurance was carried out prior to its official publication on the Company`s corporate website.

The Basis for the Formation of our Opinion

Work on the assurance of the Report was based on the analysis of supporting information provided by the Company`s management and its structural divisions, on data of the state statistical reporting and on other information from available sources using analytical methods for confirmation. Assurance includes the Company`s size, role and place in the Russian energy sector and entitative limitations of a confidential nature. Selective verification of information in the Report carried out within the framework of the "moderate" level of assurance provides a lower level of guarantees of assurance than a full audit of all information ("higher" level). With respect to numerical information in the Report, the work performed cannot be considered exhaustive to identify all possible inaccurate information. However, data collected by the assurer in the course of work is a sufficient basis to form our conclusions with the accepted "moderate" level of assurance as to the degree of the Company`s compliance with the principles of inclusivity, materiality and responsiveness of AA1000APS (2008) standard, as well as the quality of information disclosure on performance indicators of sustainable development in accordance with AA1000AS (2008) standard and the GRI`s recommendations.

Our Opinion on the Report as a Whole

— The Report adequately reflects the Company`s performance in terms of corporate non-financial public reporting.

— The structure of the Report is rational; it is presented in an understandable form, sufficiently accurate, objective, informative and balanced in content. The Report contains information in an amount sufficient for stakeholders and, at the same time, avoids excessive details. Abbreviations and technical terms are explained. Text part of the Report is accompanied by charts and diagrams, which have a positive effect on the overall perception of the reporting information.

— The Company has effective management systems, which can identify material economic, social and environmental aspects of the activities, plan, manage and improve related processes, define the expectations of stakeholders on the material aspects, reflect them in its policy and timely respond to them in the course of operating activity.

— Systems of organization, management and monitoring for the process to prepare the public non-financial reporting on the part of the Company's management are fully complied with the Company`s mission, its policies, procedures and resources.

— Corporate social responsibility and sustainable development policy is an important part of the overall process to develop the Company`s development strategy, implement planned measures, evaluate its performance and develop key areas for improving business.

— The Company`s top management demonstrates its commitment to the principles of corporate social responsibility and sustainable development, and is directly involved in the preparation of the Report.

— Some inaccuracies, errors and discrepancies in figures identified on a selective basis during the work on the preliminary version of the Report are not critical. They generally do not distort the information contained in the Report and have not significant impact on stakeholders` ability to draw corresponding conclusions in terms of the results of the Company`s activity and are eliminated by the Company in the final version of the Report.

Compliance of the Report with AA1000APS (2008) Principles

Stakeholders` Engagement

— The information presented in the Report and direct and indirect

evidences obtained by us suggest that in preparing the information to be included in the Report the interests of key stakeholders were taken into consideration.

— The Company provides a comprehensive, coherent and consistent approach to consideration of all material aspects identified during communications with the stakeholders, as well as to identify — ways to address them.

— The Company assesses the degree of implementation of the identified interests and proposals of stakeholders with its documentation in the Report.

— The main channels of informing and communicating with stakeholders include: reports, including this Report, meetings with the Company`s top management, its subsidiaries and dependent companies with managerial and operational personnel, news, press releases, interviews, negotiations, conferences, forums, surveys, the Company`s website, publications in mass media, audits and verifications, written appeals and complaints, as well as other public access mechanisms.

— The Company has a long-standing practice to prepare reports on social responsibility and corporate sustainability with engagement of stakeholders, while ensuring continuity and transparency of the reporting preparation process.

The Materiality of the Information Provided

— The Company has implemented a process to identify the material aspects of activity due to specificity of energy industry and the GRI guidelines with respect to the reporting principles. During the reporting period, the process of actualization of material aspects was maintained on a continuous basis.

— The Report is a balanced and reasonable presentation of information on material economic, social and environmental aspects of the Company`s activities for stakeholders. The Report provides a list of 2012 key events in the context of its sustainable development.

— In determining material aspects the Company took into account the key internal and external factors of activities, as well as risks.

— The Report discovers essential information on maintaining the Company's economic sustainability, priority areas of activities, the implementation of its investment program and innovative policy and gives self-esteem of the social commitments` fulfillment for 2012.

— The degree of attention paid to the various topics in the Report is proportional to their relative importance (materiality).

— The Company demonstrates an understanding of the concept of corporate social responsibility and sustainable development, uses objective information in reflecting different topics in its Report. The Report contains the long-term objectives of sustainable development for 2013-2014 and for the long term for some areas of activities (anti-corruption efforts, environmental policy and innovation development).

— The format of the provision of information and data in the Report enables users to identify trends in the Company`s performance indicators, its achievements and partially - unsolved problems in the context of economic, environmental and social aspects.

— The provided information about the material aspects of corporate social responsibility and sustainable development of the Company has sufficient traceability of the processes of gathering, processing, transfer and presentation of information.

— Based on an analysis of the Report`s information and interviews, no material aspects of corporate social responsibility and sustainable

development, which would have been missed or wrongly excluded from reporting, can be called.

— Sufficient information about the Company's compliance with regulatory acts of the Russian Federation is provided in the Report.

Responsiveness to Stakeholders` Expectations

— Currently we are not aware of such areas, which could be but were not disclosed in the Report, in which the Company would be unable to respond to reasonable inquiries from stakeholders.

— The Report contains information on accounting proposals from stakeholders made during the dialogue and the public hearings on the Report.

— The Company fulfilled a significant part of the plans and commitments presented in the previous period Reports. Some commitments are being fulfilled.

— The Company is customer-oriented. Requirements of consumers are provided with reliable and quality power supply and short terms of technological connection to power grids. In forming the Company`s positive image as a reliable partner, the investment and innovation activities which received considerable attention in the Report, play a significant role. Over a period of several years, the Company surveys level of satisfaction with the quality of services on technological connection. Positive dynamics of satisfaction is achieved.

— Opinions and expectations of the Company's shareholders are recognized by implementing the corporate governance principles.

— Interests of employees are taken into account by accepting collective agreements.

— The Company has developed and implemented a risk management system in the field of occupational safety and health, aimed at prevention of industrial injuries and occupational diseases, the improvement of working conditions and occupational safety and health of employees. Ensuring safe work of personnel is one of the Company`s key priorities.

— Responsiveness to the regions of presence` needs is accomplished through a wide range of economic and social programs and projects. The Company is the largest taxpayer at the federal, regional and local levels and contributes to the formation of industrial and socio-economic infrastructure in the regions and involves in the preparation of the 2014 Olympic Games, as well as the 2018 FIFA World Cup. Cooperation agreements were signed with 25 constituent entities of the Russian Federation.

— The right of the population to a favorable environment is ensured by the Company`s planned environmental activities. The Company has developed a corporate environmental policy and its implementation program and an environmental management system based on the ISO 14001:2004 international standard is consistently implemented. Environmental monitoring and environmental audits are conducted. The Company`s managerial and investment decisions provide for the consideration of environmental aspects. Environmentally friendly technologies of power transmission which reduce the burden on the environment are introduced. The Company`s technical policy provides for measures to reduce the impact of power grid facilities on the species composition of animals. Register for specially protected natural reservations, where Federal Grid operates, is maintained. Implementation of a wide range of organizational and technical measures resulted in the achievement of positive dynamics on key indicators of the environmental impact.

Compliance of the Report with the GRI Guidelines

The Report is prepared by using the recommendations of the Global Reporting Initiative Sustainability Reporting Guidelines GRI G3.1. The Report contains information on all standard reporting elements, as well as the needed GRI key performance indicators. Table of the GRI Guideline's indicators in the Report objectively reflects the actual level of information disclosure. The principles to determine the content and quality of the Report, including the context of sustainable development, timeliness, balance, comparability, completeness, accuracy, clarity, etc. are implemented. The Report complies with the declared level of accountability B+. The fact that the Report does not contain detailed information on certain GRI performance indicators is due to the fact that currently the Company collects statistical data to justify them. In addition, the Company believes that certain performance indicators are not material for stakeholders and their contribution to the reporting can be neglected.

The Extent and Quality of Stakeholders Engagement in Accordance with AA1000SES (2011) Standard

The process of public reporting is generally follows the recommendations of the AA1000SES (2011) standard. The Company has developed, implemented and maintained a methodology for the identification of stakeholders on the basis of multi-criteria approach, using criteria of dependency, responsibility, degree of impact, etc. The process of stakeholders` engagement in the preparation of corporate reporting is planned well in advance. Responsibility and authorities of the Company`s management and employees in the area of communications with stakeholders are identified, the necessary resources are being allocated. Periodic monitoring and updating of key interests, needs and expectations of stakeholders, on the basis of that priorities and best practices for communications with them are determined. The results are documented and promptly sent to stakeholders. Evaluation of the effectiveness of the communications with stakeholders is carried out. As a result of the preparation of the Report, public assurance that confirms the materiality and completeness of the information disclosed and the Company's responsiveness to the inquiries from stakeholders is carried out.

Recommendations to Prepare Corporate Public Non-Financial Reporting in the Future Based on Best Practices

— Disclosure of information in the reports according to "completed tasks - plans for next year - the prospects for the next few years" principles.

— Further disclosure of performance indicators in the reports provided by the Global Reporting Initiative

Sustainability Reporting Guidelines GRI G3.1 and industry-specific application for the electric power industry.

— More detailed description of the Company`s risk management directly in the reports of social responsibility and corporate sustainability, including the risks` register, risks` priority ranking, description of existing methods of managing these risks, the measures taken to mitigate the risks and to assess their effectiveness.

— Increasing the scope of the implementation of infographics in the disclosure of the material aspects of the Company`s activities.

— The development of the practice of public dialogues with stakeholders` representatives on the most substantive issues of the Company`s sustainable development, including in the regions where the Company operates.

— Conducting social reporting process internal audit in the Company and presenting materials in subsequent reporting cycles.

The Statement of Bureau Veritas Certification Rus on the Independence, Impartiality and Competence

— Bureau Veritas is an independent professional international company which specializes for over 180 years in providing services in the field of accredited certification of various management systems (in particular, quality management systems, occupational health and safety, environmental protection, social responsibility, etc.).

— CJSC Bureau Veritas Certification Rus officially declares that this Assurance is an independent assessment of a third party auditor. CJSC Bureau Veritas Certification Rus has no commercial interest in the Company`s activities except for the assurance services rendered.

— The auditors of CJSC Bureau Veritas Certification Rus involved in the work on assurance have the necessary level of competence in the assurance of public non-financial reporting in accordance with our internal procedures and best practices.

Assurer

CJSC Bureau Veritas Certification Rus

Vladimir Mityashin - Leading Auditor, Ph.D. in Economics

IRCA №01191213

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Moscow

Glossary and Abbreviations

Anticorruption monitoring	Anticorruption monitoring consists in controlling the Company's actions pertaining to fighting against corruption. The monitoring is performed to provide for the efficiency assessment of said actions by way of monitoring the results of actions involving the prevention of corruption factors and corruption events. The monitoring includes the analysis and assessment of data obtained, and the development of forecasts for future conditions and development trends.
Stakeholders relations	Stakeholders relations is a process that helps the Company to understand the stakeholders' expectations and concerns, involving them in the Company activities and decision-making procedures, taking into account their concerns.
Dialogue with stakeholders	A dialogue with stakeholders is an organized interactive interaction of the Company with its stakeholders, performed voluntary in order to update the interests and the motives of the parties involved.
The Unified Energy System of Russia (UES of Russia)	The UES of Russia is an aggregate of production and other energy facilities unified by the production (including combined generation of electric and heat energy) and transmission of electric power in conditions of centralized operating control.
The Unified National (all-Russian) Electric Grid (UNEG)	The UNEG is the main part of the Russian UES, comprising a set of electric grids and other electric power facilities that provide for the stable supply of electric power to consumers and for the functioning of wholesale electric power market, and for the parallel operation of the Russian UES with the power systems of other countries.
A stakeholder	In a broad sense, a stakeholder is a group of physical or legal persons capable of exercising influence on the Company operations, while being dependent on said operations. In a strict sense, stakeholders are the federal and local authorities, commercial companies, public and non-government organizations, whose positions and actions in respect of the Company are expressed publicly, being intended to protect socially-significant and group interests.
Innovative development	The innovative development consists in improving the reliability, quality and efficiency of consumer power supply by way of modernization of electric grids of the Russian UES based on innovative technologies, transforming them into the smart (active-adaptive) nucleus of the industry's infrastructure.
Intellectual (smart) grids	The intellectual grids form a set of electric power transmission lines, switchgear equipment, protection and automation devices and information, process and control systems that provide for the adaptive real-time response of the generation and the grids to different violations of preset parameters, and for the forecasting and prevention of bottlenecks and critical conditions.
Key Performance Indicator (KPI)	A Key Performance Indicator (KPI) is an integrated indicator of performance of a company, a company department, or a company official, reflecting the goals for the period set for a company, a company department or an official.

The Company	Federal Grid Company
Sustainability Context	A company's understanding of sustainable development, its characteristics and goals at the industry, local, regional and/or global scale and the company's impact in corresponding geographical contexts, as well as the influence of the main sustainability issues on the company's long-term strategy, risks and opportunities.
Corporate social responsibility, (CSR)	A periodically updated sum of a company obligations lying in line with the company's operation specifics, which are developed voluntary in a joint effort with the key stakeholders, said obligations being intended to implement the internal and external social programs assisting the company's development (production growth, service quality improvement, corporate brands development), and the improvement of the company's standing and image, establishing the corporate identity and widening the constructive relations with the stakeholders.
Corporate social policy	A policy implemented on the territory of the Company operations in the interests of the Company employees and of local communities.
Corporate stability	An approach to the Company's business based on social responsibility values, and taking into account and preventing non-financial risks.
Corruption	Bribery, powers abuse, corrupt business practices, or any other illegal use by the employees of their position contrary to the Company interests and for the purpose of obtaining profit in the form of money, values, property or other property-related services, or other property rights for themselves or for any third parties, or any illegal provision of such profit to an employee by other physical persons, and the performance of the above actions on behalf or in the interests of a legal person.
A conflict of interests	A situation where a personal interest (direct or indirect) of the Company employee affects or is likely to affect a proper performance by the employee of his/her employment duties, with the situation resulting or probably resulting in a conflict between the personal interests of the Company employee and the lawful interests of the Company, with such conflict likely resulting in causing damage to the Company interests
Reliability of power supply	An uninterrupted supply of power to all electric power consumers in volumes and of the quality required.
Autumn and Winter Period (AWP) of Maximal Loads	A period of maximal consumption of electric and thermal power at low temperature of atmospheric air.
JSC FGC UES	An open joint-stock company Federal Grid Company of the Unified Energy System
JSC GSS UNEG	An open joint-stock Glavsetservis UNEG, a subsidiary of Federal Grid Company
JSC ESS UNEG	An open joint-stock company Elektrosetservis UNEG, a subsidiary of Federal Grid Company
JSC MGTES	An open joint-stock company Mobile Gas-Turbine Electric Stations, a subsidiary of FGC UES
JSC UES CMEC	An open joint-stock company UES Construction Management and Engineering Center, a subsidiary of Federal Grid Company
Sustainable Development Agenda	A list of issues, contexts and topics recognized by the Company and the stakeholders as pressing in the long run.
Last Mile Mechanism	A lease agreement, concluded by and between Federal Grid Company and a distribution grid company operating on the territory of a subject of the Russian Federation (with the agreement subject being a short length of 220 kV grid).
Social or non-financial reporting	Identification, assessment, control and publication of information the actual contribution of the Company in the development of the society, the country, or the region, prepared using the international standards of non-financial reporting and the best practices.
Power supply reliability control	A set of control actions and mechanisms pertaining to the organization, control and improvement of the processes of operation, on-line control, repair and renovation of the UNEG facilities, and the training of employees on the above.
Sustainable development	A sustainable development is a development that corresponds to the needs of today without sacrificing the future generations' abilities to satisfy their needs.

ERW – emergency and recovery works;

JSC-energo – an open joint-stock energy and electrification company;

ASCMEE – automated system of commercial metering of electric energy;

AOCS – automatic operations control system;

APEC – Asia-Pacific Economic Cooperation;

CB – capacitor bank;

HVL – high voltage line;

ESPO – Eastern Siberia – Pacific Ocean Oil Pipeline;

SDC – subsidiary dependent company;

ACID – Anticorruption Action Implementation Directorate;

FGC EB – Executive Body of Federal Grid Company;

IEAAGS – Intellectual Electric Active-Adaptive Grid System

CSTC – Coordinating Scientific and Technical Council;

EETL – electric energy transmission line;

IDGC – Interregional Distribution Grid Company;

BGC – a bulk grid company;

MPTL – main power transmission networks;

RAD – research and advanced development;

WGC – wholesale generating company;

OS – outdoor switchgear;

WMEPC – a wholesale market for electric power and capacity;

OPC – operations process control;

ECA – emergency control automatics;

MPTLF – main power transmission lines facility;

SS - substation;

RPEA – Relay Protection and Emergency Automatics;

SO UES – a joint-stock company System Operator of the Unified Energy System;

RPSC – reactive power static capacitor;

STC – static thyristor capacitor;

SaNPiN – sanitary norms and regulations

SSHHPP – Sayano-Shushenskaya HPP;

TGC – territorial generating company;

TM - telemechanics;

PSD – power system disturbance;

SESR TP – Smart Energy System of Russia Technological Platform;

MR – maintenance and repair;

TCHD – trichlordiphenyl;

CTC – Central Tender Commission;

TP – target program;

GCC – Grids Control Center;

EMF – Electromagnetic Field

RAB - (Regulatory asset base) – return on investment.

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