Federal Grid Company: Driving Economic Growth through Reliable Energy Transmission

2012

Federal Grid Company
of Unified Energy System

Annual Report

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Interactive online version

Contents

* Available in electronic format, see enclosed USB drive.

Federal Grid Company – Ten-year Results

Federal Grid Company of Unified Energy System

10 years

Federal Grid Company was established in the course of Russian electric power sector reform. The reform was aimed at upgrading the UNEG (Unified National Electric Grid) economic efficiency and creating conditions to attract investments in the power industry. The Company was created and unified to manage electric grid facilities that were part of the UNEG.

2002

State registration of JSC Federal Grid Company took place. The Company started to provide power transmission and technological connection services to consumers.

2003

The Company was entered in the register of natural monopolies for the energy and fuel sector, which are regulated and controlled by the State, and in the list of commercial organizations – the Federal Wholesale Electricity and Capacity Market (WECM) entities.

2004

The inter-regional backbone electric grid companies (MMSKs) were established.

2005

44 backbone electric grid companies (MSKs) were established on the basis of Federal Grid Company and 46 distribution electric grid companies (RSKs);

A decision was made to transfer inter-regional distribution grid companies' shares to the Company's management.

2006

The UNEG consolidation process was effectively completed.

The Company approved its first Regulations on Technical Policy.

2007

A decision was made to re-organize the Company by taking over JSC RAO UES of Russia, JSC State Holding, JSC Minority Holding FGC UES, 56 MSKs and 7 MMSKs.

2008

A five-year Investment Program for 2008-2012 was approved;

The Company was listed on the RTS and MICEX Stock Exchanges, and trading started. To increase the liquidity of securities and protect the rights of foreign shareholders of RAO UES of Russia, a global depositary receipts (GDR) program for the Company was launched;

The final phase of consolidation took place: backbone electric grid companies, JSC RAO UES of Russia, JSC State Holding and JSC Minority Holding FGC UES were merged into the Company. Shares of the re-organized companies were converted into shares of Federal Grid Company. The number of Federal Grid Company shareholders exceeded 470,000.

2009

Russian Federal Tariff Service (FTS) approved parameters for the Company's transition to RAB-regulation for the 2010-2012 period;

The Company's shares were included in the stock indices of MSCI Russia and MSCI Emerging Markets.

2010

The Company's 2010-2014 Investment Program was approved.

The Company received the title "Energy Company of the Year" for its successful work in modernizing the country's backbone electric grid complex, using short-term innovation;

Russian FTS approved RAB-tariffs for Federal Grid Company for the 2011-2014 period.

2011

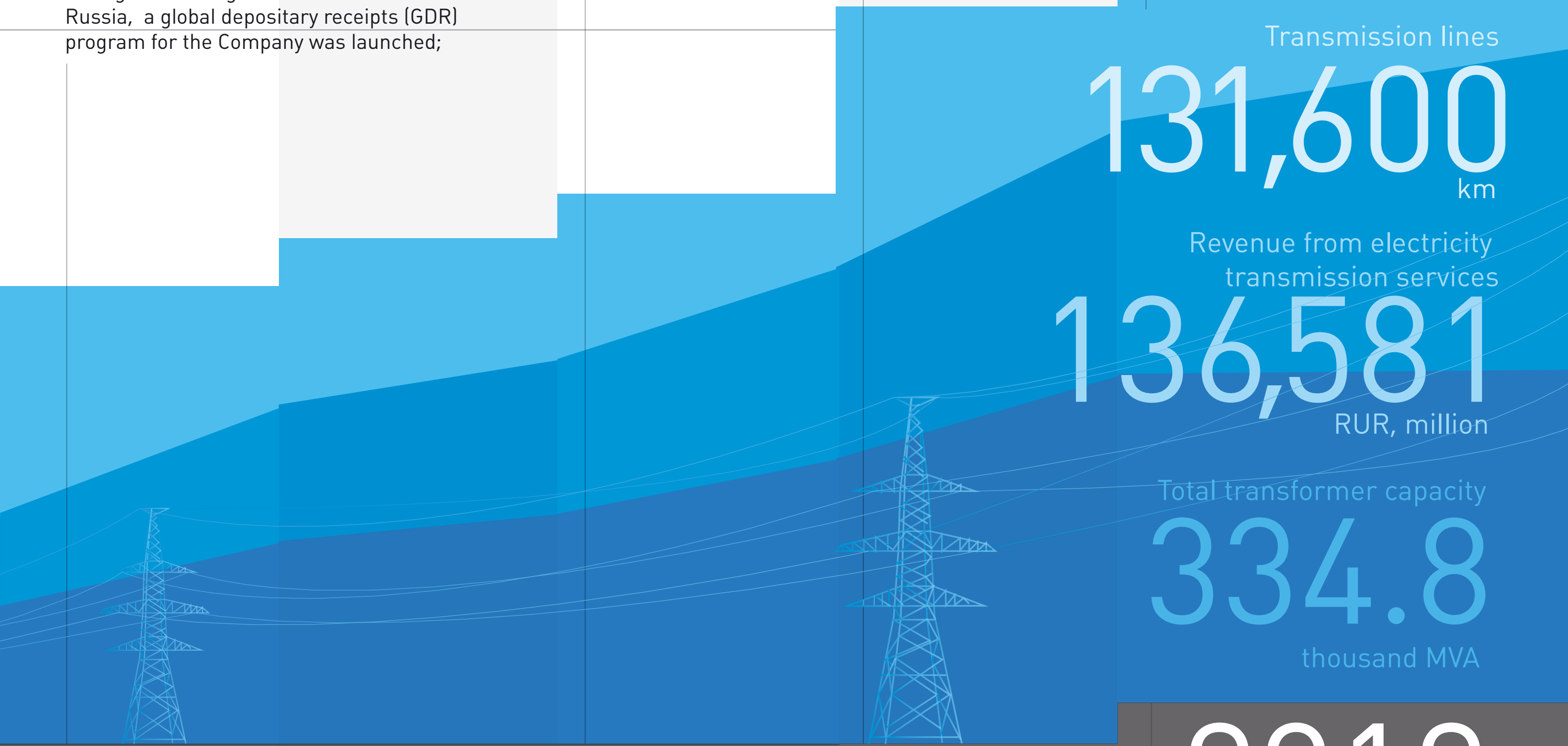
The Company's new Technical Policy that established general directions for the UNEG's prospective development, including commissioning new facilities and reconstructing outdated facilities, was adopted;

The Federal Grid Company's Innovative Development Program was adopted; the Program aims to upgrade electric grids on the basis of innovative technologies, transforming them into the smart core of the power industry's technological infrastructure;

Federal Grid Company's depositary receipts were listed on the main Market of London Stock Exchange and depositary receipt trading began.

2012

The Company's Board of Directors confirmed the Regulations on Unified Technical Policy in Russian power grid complex, which were also approved by the IDGC Holding and the System Operator;



Drop in failures due to employees' incorrect or faulty actions

35%

Federal Grid Company was appointed as the sole executive body of JSC IDGC Holding;

On 31 October 2012, the Russian Ministry of Energy approved the Company's 2013-2017 investment program. Total financing for the investment program for 2013-2017 will stand at more than RUR775.5 billion;

On 22 November 2012, Russian President Vladimir Putin signed a Decree #1567 "On 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 the State's share in Federal Grid Company, which amounts to 79.55%;

The Company placed its debut Eurobond issue.

10 Years of Corporate Results

Over the past decade, we have significantly expanded the scope of our activities, substantially increased the reliability of backbone electric grids and made great efforts to modernize production via innovative technologies.

Long-term investment planning

Adoption of a unified technical policy

Smart grid construction

Completion of key investment projects

Introduction of innovations

Social responsibility

Transition to RAB regulation, as well as a five-year investment program, which enables the maintenance of a balanced structure of funding sources.

The Company's transition to a new stage of grid complex development based on the latest technology and modern equipment.

Adoption of the Innovative Development Program to upgrade electric grids with their transformation into the smart core of Russia's electric power infrastructure.

Providing a reliable power supply to Siberia (2009-2010);

Power supply to the Island of Valaam (2009);

Power supply to Vladivostok and the APEC Summit (2012);

Power supply to Skolkovo Innovations Center (2011-2014);

Power supply to the Olympics facilities in Sochi (2009-2014).

Using superconductivity technologies;

Commissioning digital substations;

Implementing current-limiting devices.

Development of vocational training, support for education institutions;

Revival of student construction teams;

Launch of the Residential Program.

The Company's 2012 achievements

During our anniversary year, we commissioned many important power facilities, were actively involved in the large-scale reconstruction and implementation of innovations, and made numerous important decisions to upgrade efficiency and reduce costs. We also made progress in corporate governance and increasing corporate transparency. These achievements are due to the great work and professionalism of our staff.

↑ 29%

OVER-FULFILLMENT OF COMMISSIONING PLANS

Production progress

In 2012, commissioning plans were exceeded by 29%: the Company energized production facilities at 75 sites, and commissioned 3,643 km of transmission lines and 17,827 MVA of transformer capacity.

Progress in introducing innovations

Federal Grid Company entered the Top 5 companies in the quality rating of innovation development programs for State corporations and State-owned companies. The ratings were compiled by the "Expert RA" rating agency;

The Company organized the first international forum "Electric grid complex. Development. Innovation. UPGrid" to foster dialogue on innovative development within the country's energy sector. The forum was attended by approximately 5,000 delegates who examined the innovative developments of 200 member companies; within the framework of UPGrid, 15 cooperation agreements were signed.

Service quality improvement

We launched a unique information portal "Technological connection services" that promotes corporate interactions with consumers to a new level;

The number of consumers for the Company's electric energy transmission services grew 31% and the number of technological connection contracts increased 50%, compared with 2011.

Capital market progress

Our Company placed its first Eurobond issue on the Irish Stock Exchange in the amount of RUR17.5 billion;

The Company joined the United Kingdom Investor Relations Society to enhance cooperation with foreign partners and to promote the Company internationally;

Our Company received recognition from capital market participants: Federal Grid Company was named one of the top-5 large cap companies in Russia by IR Magazine Russia & CIS, in the category of "Best Investor Relations by a CFO, Large Cap", and was awarded the "Issuer of the Year" prize by Cbonds news agency:

In 2012, Federal Grid Company was the first Russian electric energy company to place a 10-year inflation-protected ruble-denominated bond issue.

17.5

RUR, BILLION

DEBUT EUROBOND ISSUE ON THE IRISH STOCK EXCHANGE

Advances in corporate governance and transparency

The Russian Institute of Directors completed an independent analysis of the Company's corporate governance and assigned a score of "7+" on the national corporate governance scale, which corresponds to a "Developed Corporate Governance Practice";

Our Company placed fifth in the information transparency ranking of Russian companies, which was compiled by the Agency for Political and Economic Communications, due to the high level of the Company's information interactions with its customers, as well as its strict adherence to all relevant disclosure requirements;

Fulfilling the Russian President's order to reduce the cost of purchased goods, work and services; we have tightened our procurement requirements. This led to a significant increase in 2012 in the volume of competitive procurements, which amounted to 91% of total purchases during the reporting period. Our Company has been assigned a "High Transparency" score by the National Procurement Transparency Rating 2012, which was organized by the National Association of Electronic Commerce;

We have developed and approved new Regulations on the Company's internal control, based on best international practices and standards, including the COSO Concept.

7+

SCORE ON THE RUSSIAN NATIONAL CORPORATE GOVERNANCE SCALE

Ernesto Ferlenghi

Chairman of the Board of Directors

DEAR SHAREHOLDERS,

In 2012, the Company continued operating in accordance with the corporate development strategy and goals set by shareholders. Goals included: providing for stable power supply and the systemic reliability of the entire Russian grid and ensuring balanced advanced development of the power grid infrastructure and the qualitative modernization and innovative development of the national power industry. Summing up the results of the reporting year, we are fully confident that the management team's successful implementation of planned actions enabled the Company to achieve positive operational and financial results.

The Company's management team paid significant attention to further enhancing the long-term financial and economic policy, which results in greater financial stability. Standard & Poor's confirmation of the Company's BBB (forecast: Stable) long-term credit rating proves that we have chosen the right strategy.

During 2012, we were very successful in the corporate governance sphere; the Company received a 7+ rating in the national corporate governance ranking, which corresponds to a "Developed Corporate Governance Practice" indicator.

Statement of the Chairman of the Board of Directors

We are consistent in upgrading the transparency of corporate operations. We tightened the requirements set for purchase procurement participants (related to information disclosure about beneficiaries), while maintaining a high degree of competition due to an increased number of open tenders carried out using e-commerce facilities. This resulted in a 3% increase in procurement efficiency, compared with 2011.

Having studied the world's best anti-corruption practices, we launched implementation of the Company's compliance system in 2012. We have developed a legal framework that includes the Company's Code of Conduct, the Anti-Corruption Policy, the Compliance Policy and the Program for fighting corruption and resolving conflicts of interest for the 2012 to 2014 period, as well as some additional documents. Systemic to protect against corruption confirms the Company's across-the-board commitment to high ethical standards for conducting open and fair business and maintaining good standing.

We pay significant attention to environmental protection. The design documents for new facilities contain special sections on environmental protection, which are developed in compliance with all Russian legal requirements on environmental protection. All projects related to the construction and re-construction of power grid facilities go through a State environmental assessment, with public hearings on future environmental impacts.

BBB

LONG-TERM CREDIT RATING ASSIGNED BY STANDARD & POOR'S (STABLE OUTLOOK)

Our employees are the Company's most valuable asset and we are concerned about retaining and developing the Company's HR potential.

Our employees are the Company's most valuable asset and we are concerned about retaining and developing the Company's HR potential. Training specialists on advanced technologies and efficient production practices is one of the Company's priorities. The Company's management pays significant attention to occupational health and labor safety, dedicating funds to finance different employee health programs, employee holidays at recreation facilities and appropriate medical care.

The Board of Directors sets complex tasks for the Company; and to implement these tasks in the midst of dynamic changes occurring in the electric energy sector will require full mobilization of the Company's strategic, managerial and financial potential. Federal Grid Company is stable and strong enough to develop and foster its positions; and the Company's Board of Directors shares the values and development views of the Company's management team.

I'm confident that Federal Grid Company's highly qualified management and staff will succeed in resolving 2013 tasks, providing for the Company's sustainable development under new conditions.

Oleg Budargin

Chairman
of the Management Board

DEAR SHAREHOLDERS,

The past year was a successful year for Federal Grid Company, marked by the successful achievement of all strategic tasks set by shareholders. The Company demonstrated steady growth across all key parameters.

The Company's priority during the past year, as well as during all recent years, focused on ensuring the stable electric power transmission with upgraded reliability. We achieved this task through a growing fleet of equipment in operation; the number of disturbances decreased and the specific transmission networks' emergency rate fell 16%. Implementing a set of preparatory actions ensured the maximal preparation of power grid facilities for the performance of emergency recovery work during the autumn-winter periods.

During the past year, as well as previously, the Company made every effort to fulfill tasks set by the Russian Government related to power industry infrastructure modernization and development, to further upgrade power grid complex reliability and to provide the technological basis for Russian economic development. The Company's 2012 investment program was successfully fulfilled. The Company has accomplished numerous major projects that are essential for the social and economic development of Russian regions. The Company commissioned in a timely manner infrastructure power facilities in the Primorsky Region, and also for the first stage of the ESTO pipeline, which is the Russian government's top priority infrastructure project. Other accomplishments included the timely commissioning of the 4th power unit at the Kalininskaya NPP. Projects related to the power supply of the Vankorskaya Group of fields and the 2014 Sochi Olympics, etc. were also implemented on schedule.

Statement of the Chairman of the Management Board

In 2012, the Company activated energy production at 75 facilities, including 12 facilities that were energized ahead of schedule. The Company commissioned 3,643.2 km of power transmission lines and 17,827 MVA of transformer capacity. Funds spent on facility commissioning stood at RUR186,833 million, a 33% increase. During investment program, implementation, significant attention was paid to the efficiency of purchasing operations. In 2012, the Company saved in excess of 10% on commissioned facilities.

In 2012, Federal Grid Company efficiently implemented its financial and economic policy. The Company's investment attractiveness is growing steadily, along with a strengthening of the economic foundation needed to provide the financial resources required to implement established goals. The Company has developed a long-term balanced structure of financing sources for its investment program.

Implementation of the innovative development policy involved the qualitative modernization of the national power industry and upgraded energy efficiency. The Company also focused on optimizing the UNEG infrastructure, as well as diversification and quality improvement of services. Transitioning to a smart energy system based on an active-adaptive grid remains one of the Company's top priorities. In 2012, the Company's innovative development program became one of the top three innovative development programs adopted by Russian companies.

In accordance with decisions of the Russian Government, Federal Grid Company has successfully performed the functions of the Sole Executive Body of JSC IDGC Holding. Beginning from July 2012, the Company has made numerous key decisions pertaining to organizational, managerial and corporate issues, focused on developing unified principles for the governing backbone and the distribution grid facilities. These decisions resulted in improved controllability of the domestic power grid complex, thus, ensuring the reliable operation of all Russian power grids.

Development of a complex approach to training and attracting professionals and retaining young specialists is one of the Company's strategic priorities. Currently, the Company cooperates with more than 60 secondary and higher education institutions from across the country.

The Company actively implements different social programs in the regions in which the Company operates, including implementing national projects and complex social programs. Special attention is paid to occupational development and labor conditions improvement, as well as material incentives for employees, who have an opportunity to access high quality medical services.

The Company assists its employees in resolving their housing problems. As part of this, we launched a program to construct housing for corporate employees. The program, approved by the Russian government, helped more than 1,000 employees upgrade their housing conditions. Furthermore, these programs also attracted young specialists to key corporate facilities.

2012 was a special year for the Company, marking its 10th anniversary. The Company's success can be attributed to the professional and personal contributions made by each employee. Today, the Company's staff is made up of a collaborative team of young specialists (in 2012, the Company hired more than 1,800 young professionals) and industry veterans. Youthful energy coupled with veteran experience of enables the Company to adequately respond to today's challenges and to successfully address large-scale tasks. These are the values that the Company will take care of in the future.

I'd like to thank the Company's shareholders, partners, customers and employees for their trust and fruitful cooperation, and for their contribution to Federal Grid Company ongoing development.

↓16%

DECREASE IN SPECIFIC TRANSMISSION NETWORKS' EMERGENCY RATE

↑33%

INCREASE IN INVESTMENTS IN FACILITY COMMISSIONING

Market Overview

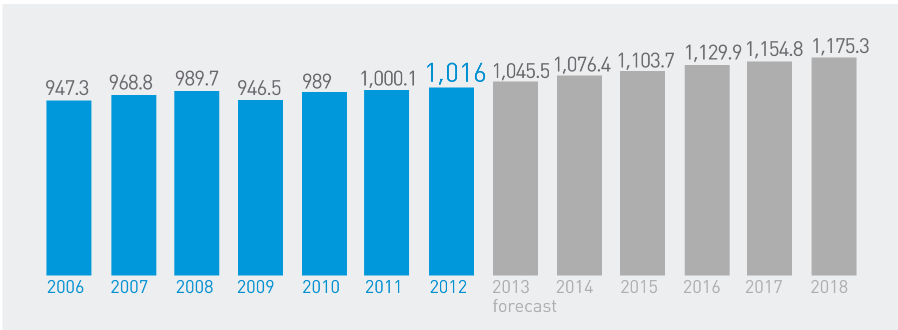
101600000000

KWH OF ENERGY CONSUMPTION IN RUSSIA FOR 2012

The Situation in the Industry

The growth of power consumption started from 1998 during the recovery and development of the Russian economy (except for 2009, when the global financial crisis resulted in an energy consumption decrease). In 2012, energy consumption reached 1,016 billion kWh, while the achievement of the historical maximum of 1,073.8 kWh (1990) is expected in 2014. On 2 February 2012, the Unified Energy System of Russia registered one more record in power consumption comprising 155,226 MW, which is the maximum consumption in the entire modern history of Russia, evidencing the growth in energy and power consumption.

Forecast of energy consumption across the Russian UES for the period till 2019, billion kWh*



*According to the Scheme and 2012-2018 Russian UES Development Program approved by Order # 387 of the Russian Ministry of Energy, dated 13 August 2012

2012 was a very important year in respect to the development of the electric energy industry. The Russian Ministry of Energy approved two crucial documents providing for the reliability and safety of the sector for a few decades: the Program for the Modernization of the Energy Industry till 2020 and the Basic Rules of Price Formation in the Heat Supply Sphere. Moreover, Russian Government's Decree #442 providing new rules for the functioning of retail markets of the electric energy and capacity for the protection of suppliers' and consumers' interests and the creation of competitiveness and reliability of electric energy supply was put into effect.

To develop Russia's electric grid complex, coordinate management of the complex, and to restrain tariff growth for end consumers of electric energy, in November 2012, the Russian President signed a Decree "On Open Joint Stock Company Russian Grids," providing for the re-naming of IDGC Holding as Russian Grids and the contribution of the State's 79.55% stake in Federal Grid Company to Russian Grids' share capital.

The development of the national energy sector is based on the scenario of innovative economic development. In accordance with the Energy Strategy of Russia for the period till 2030, as approved by the Russian government, it is expected that during implementation of the Strategy the dependence of the national economy on the energy sector will diminish due to the priority development of innovative energy-saving sectors, and the implementation of the technologic potential of energy saving. This will be expressed in an almost two-fold decrease in the share of the fuel and energy complex in the Gross Domestic Product by 2030 (compared with 2005).

At the same time, the energy sector will maintain its key role in making essential strategic decisions pertaining to the national development. First of all, this is so in regard to the construction of new power infrastructure that will enable accelerated social and economic development of the Eastern Siberia and Far East, and overcoming infrastructural gaps among numerous regions, thus forming new territorial and production clusters based on the development of energy-generating and processing facilities.

The decrease in dependence on the power sector will be accompanied by qualitative changes in the role of the fuel and energy complex in the national economy. The Russian power sector will maintain its influence on the social situation in the country, as the level of energy comfort and the availability of energy resources define the standards of living of Russian citizens in many respects.

↑17%

RUSSIA'S FORECAST ENERGY CONSUMPTION GROWTH FOR 2012-2018

JSC Russian Grids

Power Grid Complex (PGC) Development Trends

Based on the PGC Development Strategy (5+5 Strategy) adopted in 2006, there were three priorities formulated for the governmental policy on the Russian power grid complex, namely the following:

Russian PGC Development Priorities

Investment attractiveness	Slowing down tariff growth rates without prejudice to reliability	Improving reliability and customer service quality

The power grid complex of Russia underwent a number of essential changes recently. Considerable investments in the grid infrastructure helped eliminate lags from the nineties, decreasing the degree of wear to the grids and improving reliability. The implementation of RAB-regulation provided for additional investments in the industry. The implementation of economic responsibility of power grid companies for the quality servicing of customers and their timely connection to power grids contributed to improvements in service quality and increased reliability of grid operations.

However, there are some tasks in the industry, such as the increase in the capitalization of sector companies that are still pending as they were put aside due to numerous different reasons, including: the economic crisis and increasing energy product prices. Furthermore, the PGC has some more pending issues, such as: cross-subsidizing, insufficient operations, the investment efficiency of companies and the last mile problem, etc. Taking these into account, it was decided to integrate major PGC companies, meaning JSC IDGC Holding and Federal Grid Company. A decree on the establishment of JSC Russian Grids was signed in November 2012. The new company is tasked with the implementation of an integrated PGC policy, the development of a common plan for the development of backbone and distribution grids, and control over the unified tariff rate and PGC management.

State Regulation in the Power Industry

The Russian government controls the power industry in accordance with the Federal Law #35-FZ "On the Electric Power Industry", dated 26.03.2003.

The federal authorities empowered by the Russian government to exercise the State regulation of the power industry include the following:

— The Ministry of Energy of the Russian Federation (the Russian Ministry of Energy), tasked with the functions of developing a State policy on normative regulation in the sphere of the fuel and energy complex, including electric power issues;

— The Federal Service for Environmental, Technological and Nuclear Supervision (Rostechnadzor), engaged in control and supervision over the power industry, as well as licensing individual activities, and checking for compliance with Russian laws on the power industry.

The Company's Role in Russia's Energy Strategy

The Russian 2030 Energy Development Strategy approved by Decree #1715-r of the Government of the Russian Federation, dated 13 November 2009, is one of the key landmarks for corporate development.

The 2012-2018 Plan and Program for the Development of the Unified Energy System of Russia were submitted to the Russian Government by Federal Grid Company and JSC SO UES on 1 February 2012. The new document takes into account 2011 actual energy and capacity consumption dynamics, the volume of power distributed pursuant to the installed power agreements concluded in 2011 and the commissioning of generating grid equipment and the adjusted plans of the power industry subjects for the construction of new facilities, and a number of other factors impacting the development of the Russian power industry. The 2012-2018 Plan and Program contains a separate section describing the development of the Moscow and the Moscow Region's energy system, characterized by the highest energy consumption rate. On 13 August 2012, the Plan and program were approved by Russia's Ministry of Energy.

Planning the future development of the power industry

Decree #823 of the Government of the Russian Federation
"On Plans and Programs of the Future Development of the Power Industry", dated 17 November 2009

The Russian Ministry of Energy,
JSC SO UES,
Federal Grid Company

The General Scheme for the Arrangement of Power Industry Facilities for a 15-year Period
(to be adjusted at least once every three years)

Federal Grid Company,
JSC SO UES

The administrations of Russia's constituent territories

UES Development Plan
(including the UNEG Development Plan)
for a period of 7 years (annually, till 1 March)

Russia's constituent territory's Power Industry Development Plan
based on the social and economic development forecast for a period of 5 years (annually till 1 May)

Investment programs of power industry entities

The Company, jointly with SO UES, develops and submits to the Russian Government the Plan and Program for the development of the Russian UES for a 7-year period. The key task of this document is to contribute to the development of grid infrastructure and generating facilities and to meet long-term and mid-term demand for electric energy and capacity.

The adjustment of the General Scheme for the arrangement of power industry facilities till 2020, in view of 2030, as approved by the Russian Government (an excerpt from Minutes #24 of the meeting of the Russian Government, dated 03.06.2010b)

Federal Grid Company's results for 2012

2012-2018 Plan and Program for the development of the Russian UES, including the development of the 220 kV and higher Unified National (all-Russian) Electric Grid (UNEG), as approved by Order #387 of the Russian Ministry of Energy, dated 13.08.2012

2013-2017 Investment Program of Federal Grid Company as approved by Order #531 of the Russian Ministry of Energy, dated 31.10.2012.

Federal Grid Company's results for 2013

Projects of the Plan and Program for the development of the Russian UES and Federal Grid Company's investment program for 2013-2018

Key tasks of the Plan for the Development of the Unified Energy System of Russia

Decreased number of closed main substations	Providing consumers with the opportunity of technological connections; Increased reliability of electric energy supply to consumers; Improved quality of provided services.
Enlarged free power transfer zones	Development of electric capacity market; Providing for competitiveness; Optimizing the tariff burden for consumers.
Priority development of electric grid infrastructure	Implementation of plans for the social and economic development of regions; Stimulating development of undeveloped deposits; Contributing to the economic and social growth of the country.
Providing power from generating plants	Fulfilling the government's plans for the supply of capacity to the market; Providing demand for electric energy; Removing technologic constraints between energy systems.
Renovating fixed assets	Increased reliability of electric energy supply to consumers; Replacing outdated and inefficient equipment; Reducing expenses for the maintenance and repair; Reducing negative environmental effects; Increasing the efficiency of assessing fixed assets' status.

The 2012-2018 Plan and Program for the Development of the Russian UES implies the commissioning of 44 thousand kilometers of 220kV and higher overhead power transmission lines, including 27 thousand kilometers of 220 kV overhead power transmission lines and 17 thousand kilometers of 330 kV and higher overhead power transmission lines. Other goals include: commissioning 168.2 thousand MWA of 200 kV and higher power transformer equipment at substations.

Regional development of the 220 kV and higher UNEG grids till 2018

(length in thousand km)

The Company's Mission and Strategy

Federal Grid Company is a strategically important, reliable, efficient and dynamically developing company focused on maintaining the UNEG integrity, providing uninterrupted and high quality services to consumers and promoting both shareholder and investor prosperity.

Our Mission

The Company's 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.

Our Strategy

Company Priorities	Results
1. **Reliability**	A 19.5% decrease in the specific accident rate (for every 1,000 cases) compared with 2008 Upgrading reliability, page 50
2. **Quality of services**	An increase in the number of consumers for energy transmission services and in the number of technological connection contracts with customers and distribution grid companies by 50% respectively, compared with 2011 Technological Connection, page 46
3. **Development of PGC scientific potential**	RUR2.9 billion invested in R&D in 2012 R&D, page 113
4. **Grid infrastructure development**	Commissioning 3,643 km of overhead power transmission lines and of 17,827 MWA of transformer capacity in 2012 Investment Activities, page 58
5. **Competitive tariff rates**	Conservative 11% tariff growth in 2012 (starting 1 July) and by 9% in 2013-2014 (annually starting 1 July). Tariff Regulation, page 127
6. **Adequate ROI for investors**	The return on initially invested capital grew from 3.9% in 2010 to 6.5% in 2012 Tariff Regulation, page 127

↓19.5%

DECREASE IN THE SPECIFIC ACCIDENT RATE IN 2012 (COMPARED WITH 2008)

The Company's strategic goals to upgrade reliable UNEG operation include the following:

Ensuring the preparedness of power transmission lines and UNEG equipment for reliable consumer power supply; provisions for the functioning of the wholesale electricity and capacity market, and for the parallel operation of the UNEG of Russia and foreign energy systems;

Ensuring the UNEG reliability and efficiency due to the visibility and controllability of all grid elements;

Increasing the response and reducing the time required to eliminate accidents and other extraordinary conditions at UNEG facilities;

Developing a diagnostic system for UNEG facilities;

Developing the structure for operating and engineering control over UNEG facilities;

Ensuring efficient UNEG operation due to the justified optimization of main electrical connection schemes and a reduction in areas occupied by facilities, as well as a decrease in auxiliary power consumption;

Overcoming the tendency for the aging of power grids and power grid equipment via modernization of the above, the optimization of re-construction work and technical re-equipment, and by using extended service life of equipment;

Accomplishing the automation of UNEG substations, the implementation and development of advanced technical condition control systems, of automated systems for diagnostics and the monitoring of process equipment and of relay protection and emergency automatics;

Upgrading operation processes, maintenance and repair; providing occupational training for operations and repair personnel, taking into account the implementation of new technologies and innovative equipment;

Implementing the Unified Technical Policy in the PGC of the UNEG, to improve power supply reliability to end consumers, to cut capital invested in facilities, and to reduce costs associated with achieving the Company's strategic goals.

The Company's Competitive Advantages

Vast experience in the field of successful corporate governance and operations management;

A team of experienced power industry managers;

Adequate risk management;

State support;

Successful experience cooperating with market regulators;

Strong connections with equipment suppliers and contractors.

... Translate into Achieving the Company's Strategic Goals:

Competitive electric energy transmission tariff rate;

Power supply reliability;

Infrastructure development for economic growth;

Increasing investment attractiveness;

Technological development;

Sustainable development.

Key Company Data

The Unified National (all-Russian) Electric Grid (UNEG) is a complex of electric power grids and other electric grid facilities, providing for the reliable supply of power to consumers, for the functioning of the wholesale electricity and capacity market and for the parallel operation of Russian and foreign energy systems. The rated voltage class, the throughput capacity and energy flow reversibility, as well as other process characteristics of the power grid facilities integrated into the UNEG, are subject to approval by the Russian Government.

Federal Grid Company was established in 2002, in accordance with Russia's power sector reform package. The Company's operational priority lies in transmitting electric power via backbone grids. The Company is a natural monopoly in this sphere. The Company is also included in the list of strategic organizations.

OUR FACILITIES ARE LOCATED IN

75

RUSSIAN REGIONS

The Company has a unique infrastructure that forms the physical backbone of Russia's domestic economy:

Large scale: power grid facilities are located in 75 Russian regions, with an area totaling 14.8 million square kilometers. Half of Russia's total energy consumption is provided for using energy transmitted across the Company grids;

Stable financial condition: the largest share of the Company's receipts is generated via tariffs for energy transmission, as approved by the Federal Tariff Service (FTS), using the RAB-regulation method.

The Company's key activities

- UNEG control
- Rendering power transmission and technological connection services for wholesale electricity and capacity market entities
- Investment activities to develop the UNEG
- Proper maintenance and technical supervision of grid facilities

Key Performance Indicators

	2008	2009	2010	2011	2012
Number of substations.*	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, billion)	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, billion)	16,704.763	13,628.309	15,716.33	19,284.808	15,768.826
Customer contract demand (MW)	90,042	94,636	91,179	90,937	90,744
Electric energy losses in the UNEG grids (kWh, million)	21,866	22,121	22,526	22 553	21,946

* Taking into account leased facilities and outdoor switchgear and cells on the SS owned by other entities.
** Including leased transmission lines
*** According to the WECM data.

Key Financial Indicators (RUR million)

	2008	2009	2010	2011	2012
Revenue (net) from the sales of goods, products, and services	68,485	85,078	111,085	138,137	138,836
Adjusted EBITDA*	32,718	40,379	67,405	84,683	82,847
Profit (loss) before tax	6,177	- 54,049	67,312	11,444	14,232
Net (retained) profit (loss)	4,465	- 59,866	57,082	-2,468	-24,502
Adjusted net profit*	7,772	9,427	25,702	33,687	13,413
Net asset value	666,471	579,746	794,470	853,801	849,877
Market capitalization	141,882	367,971	452,717	351,138	253,905

* Without the loss from the revaluation of assets and the accrual and recovery of doubtful debt provisions and provisions for securities.

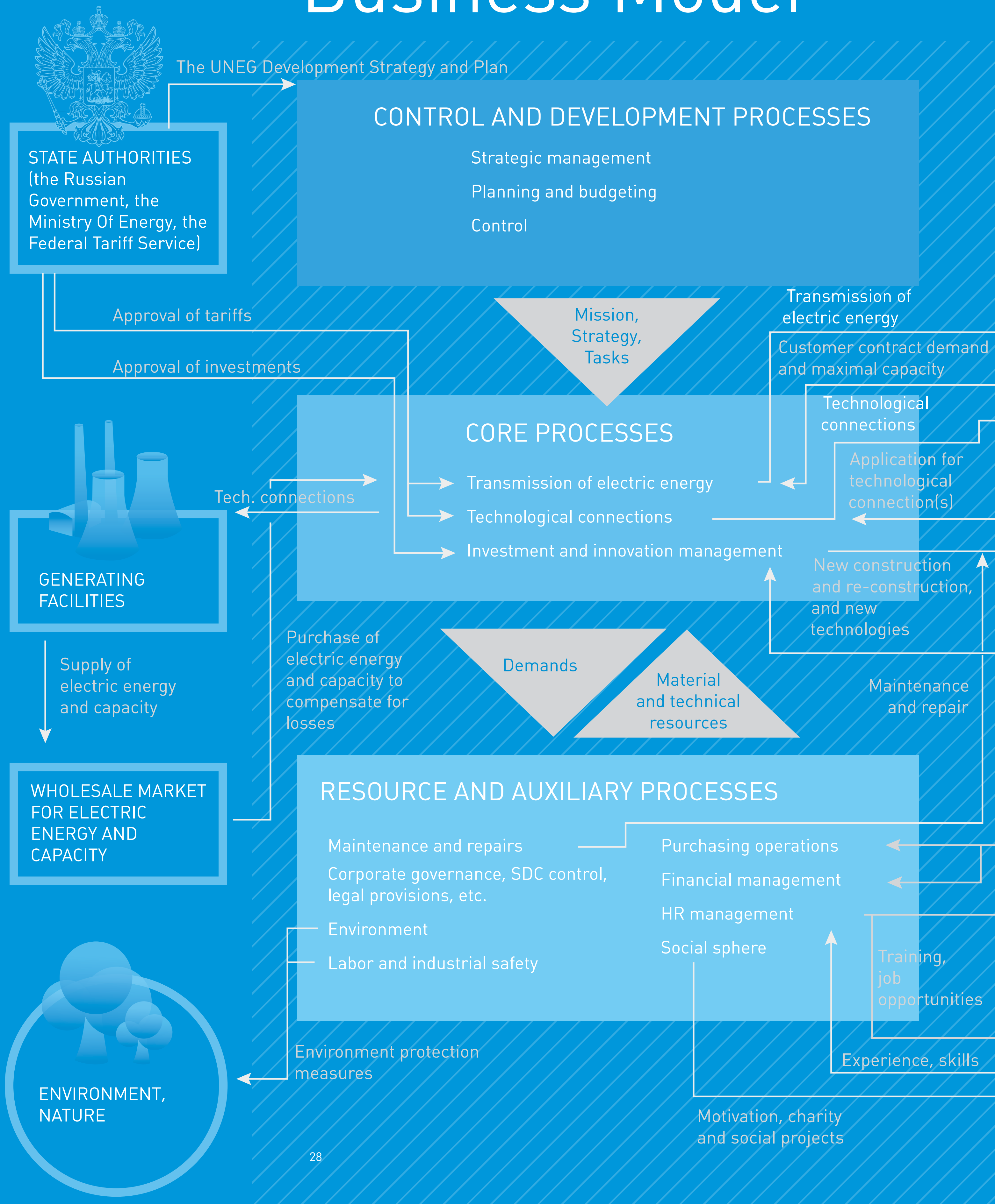
891

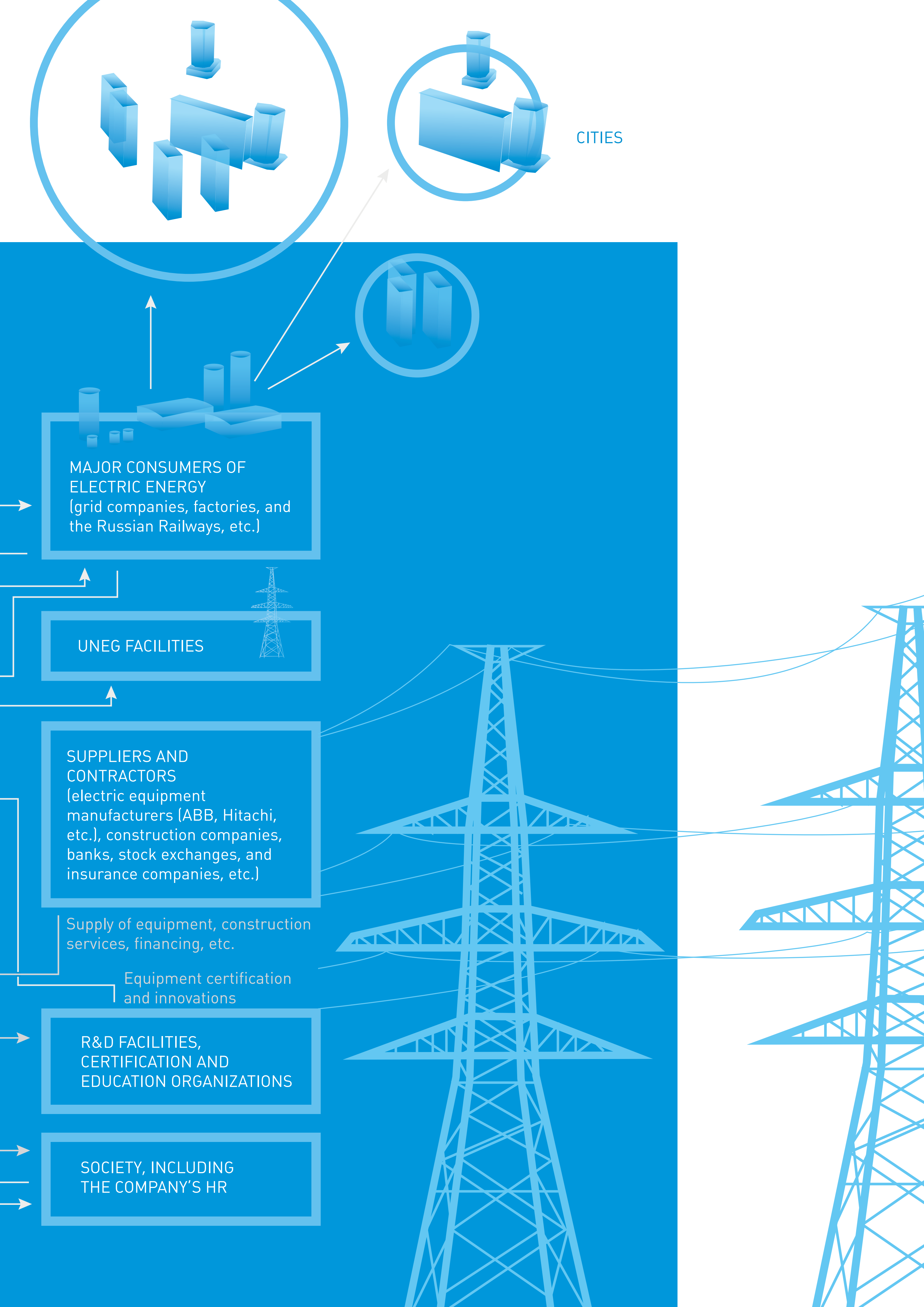
SUBSTATIONS

RUR 138,836 MILLION

REVENUE (NET) FROM SALES

The Company's Business Model




CITIES
MAJOR CONSUMERS OF ELECTRIC ENERGY
(grid companies, factories, and the Russian Railways, etc.)
UNEG FACILITIES
SUPPLIERS AND CONTRACTORS
(electric equipment manufacturers (ABB, Hitachi, etc.), construction companies, banks, stock exchanges, and insurance companies, etc.)
Supply of equipment, construction services, financing, etc.
Equipment certification and innovations
R&D FACILITIES, CERTIFICATION AND EDUCATION ORGANIZATIONS
SOCIETY, INCLUDING THE COMPANY'S HR

The Company's Organizational Structure

The Company's supreme governing body is the General Shareholders Meeting. The Board of Directors determines the Company's development strategy and controls the activities of the Management Board. The Management Board controls the Company's operations.

General Meeting of Shareholders

Board of Directors

Chairman of the Management Board

Executive | Management Board | 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	Bryanskoye	Lower Volga	Kaspiyskoye	Permskoye	Eastern	Zabaikalskoye	Amurskoye
Upper Don	Vyborgskoye	Mid-Volga	Kubanskoye	Sverdlovskoye	Central	West Siberia	Primorskoye
Volga-Don	Karelskoye	Samarskoye	Rostovskoye	South Urals	Southern	Krasnoyarskoye	Khabarovskoye
Volga-Okskoye	Leningradskoye	Nizhegorodskoye	Stavropolskoye	Orenburgskoye	Yamalo-Nenetskoye	Kuzbasskoye	
Moscow	Novgorodskoye		Sochinskoye			Omskoye	
Priokskoye	North					Tomskoye	
Chernozemnoye						Khakasskoye	
Special Purpose Production Center Bely Rast							
Technical Supervision Center							

As of 31 December 2012, the Company incorporates 51 regional branches, including:

8 backbone electric grids (MES)

41 backbone electric grid transmission line companies (PMES)

1 dedicated production base "Bely Rast"

1 Technical Supervision Center

Subsidiaries and branches directly subordinated to the company (share in the charter capital)

SRC FGC UES (100%)	ESSK UES (100%)	APBE (100%)
UC ENERGETIKA (100%)	CIUS EES (100%)	Index of Energy-FGC UES (100%)
Elektrosetservice UNEG (100%)	Chitatekhenergo (100%)	GVC Energetiki (50%)
Glavsetservice UNEG (100%)	Mobile GTES (100%)	MES Kuban (48,99%)
MUS Energetika (100%)	Volgaenergosnabkomplekt (100%)	
Tomsk Backbone Grids (52,025%)	CNII NPKenergo (100%)*	
Severovostokenergo (49%)	Nurenergo (76,99%)	
Energotechkomplekt (48,99%)	GruzRosenergo (50%)	
ENIN (38,24%)	IT Energy Service (39,99%)	
UEUK (33,33%)		

* In March 2012, an entry regarding the company's dissolution was made in the Unified State Register of Legal Entries.

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

Detailed information on the Company's participation in subsidiary and dependent companies (SDC) is available in the Appendix "Information on the Participation of JSC Federal Grid Company in the Operations of Subsidiary and Dependent Companies (SDCs), and in the Operations of Other Companies in 2012".

The Company’s Geographical Scope

The Company operates in 75 Russian regions, encompassing 14.8 million square kilometers. The territory housing the Company’s facilities is divided into zones of responsibility for corporate branches, meaning backbone grid companies, known as the MES and PMES. Underpopulated territories with no major consumers, such as Chukotka, Kamchatka, the Magadan Region and Sakhalin, are not integrated into the UNEG due to the lack of economic conditions necessary to lay backbone energy transmission grids and establish major substations.

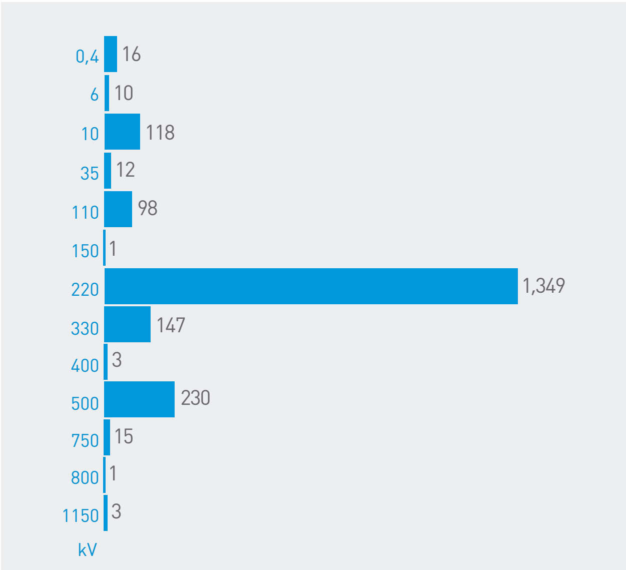
Total area spanned

14800000 square km

The Company's Power Grid Assets

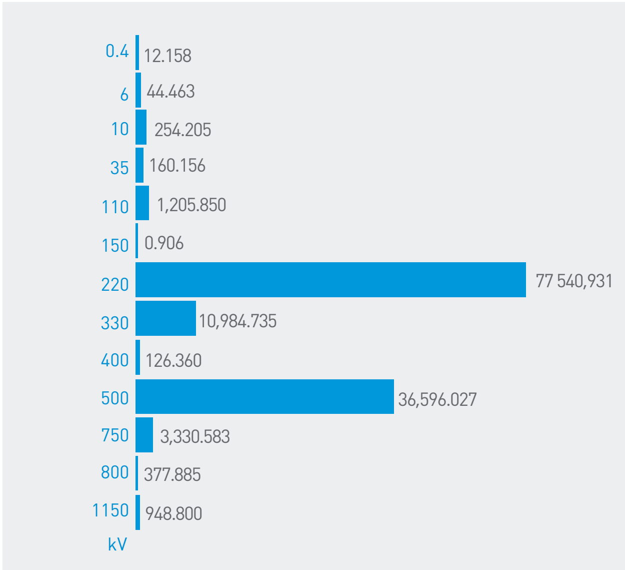
Federal Grid Company provides for the operation of more than 131 thousand kilometers of power transmission lines and 891 substations with a total transformer capacity exceeding 334.8 thousand MVA.

The quantitative structure as of the Company's PTL per voltage class on 31.12.2012*



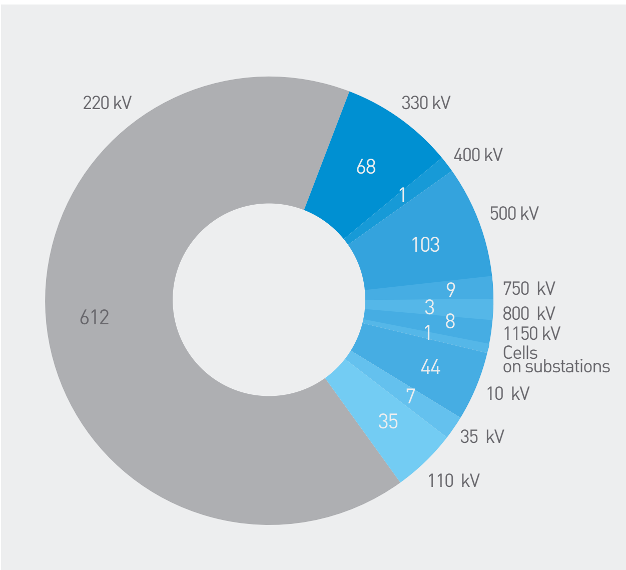
* Taking into account leased facilities

The length of the Company's electricity translmission lines as of 31 December 2012, km*



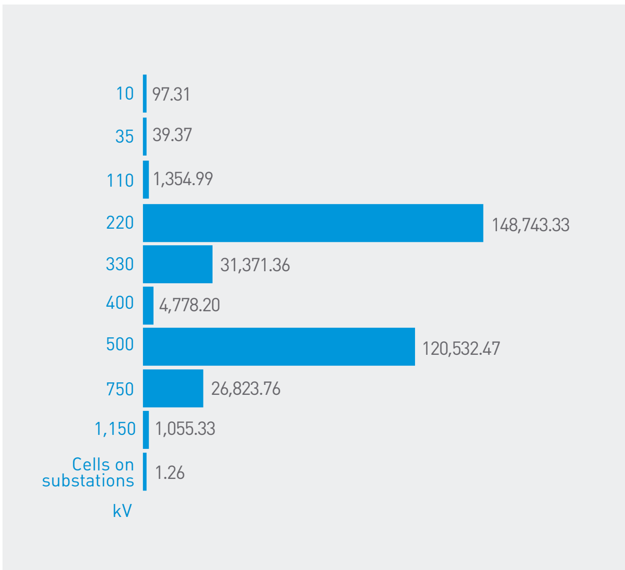
* Taking into account leased facilities

Number of the Company's substations as of 31 December 2012*



* Taking into account leased facilities, outdoor switchgears and cells on substations owned by other entities

The Company's substations capacity as of 31 December 2012, MVA*



* Taking into account leased facilities, outdoor switchgears and cells on substations owned by other entities

179.90

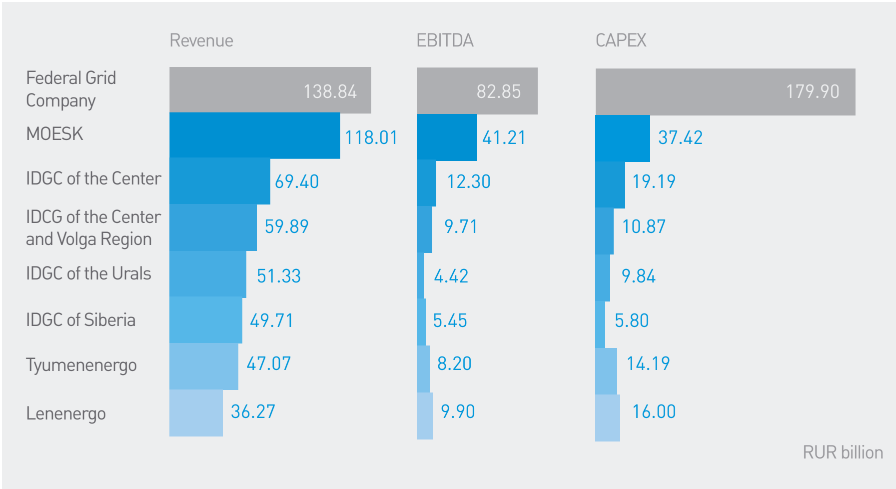
BILLION RUBLES
FEDERAL GRID'S CAPEX

OR

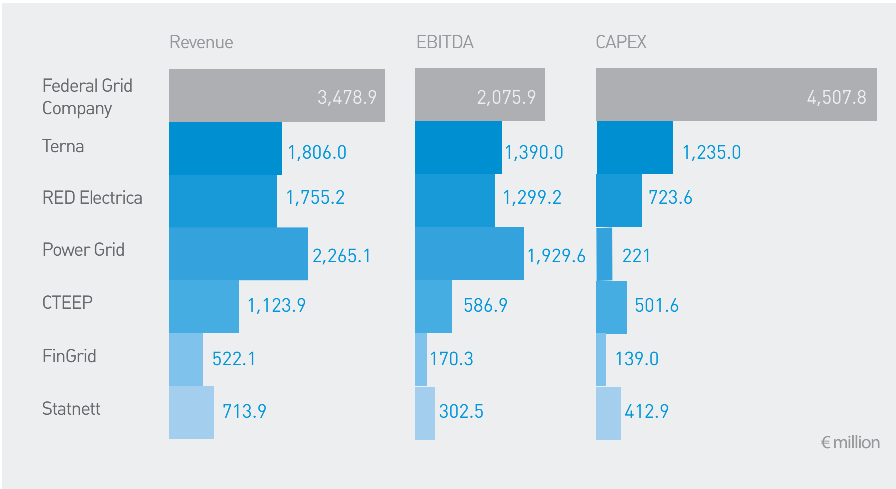
4,507.8

MILLION EURO,
FEDERAL GRID'S CAPEX

Comparing Federal Grid Company with similarly-sized Russian companies for 2012



Comparing Federal Grid Company with similarly-sized foreign companies for 2012



International Operations

Federal Grid Company functions as the carrier of electric energy over Russia's customs border, as well as the technical contractor involved in performing all commercial contracts for importers and exporters on the Wholesale Electric Energy and Capacity Market. Pursuant to conditions of agreements concluded with JSC Inter RAO UES and JSC TGC-1, the Company accomplishes the transmission of electric power to the Russian borders via power grid facilities that are integrated into the UNEG and legally owned by the Company. Besides, the Company is engaged in acquiring and processing information on power transmission along the 139 inter-State power transmission lines. The information is based on data supplied by energy metering devices.

The Company has concluded contracts for paid energy transit services using the power grids of Latvia, Lithuania, Estonia and the Republic of Belarus to supply electric power to Russian consumers in the Bryansk, Pskov, and Kaliningrad Regions. The Company also pays for energy transit through the territory of Kazakhstan pursuant to an inter-governmental agreement on measures providing for the parallel operation of the unified energy systems of Kazakhstan and Russia.

According to the inter-governmental agreement concluded by and between the governments of Russia, the Republic of Kazakhstan, and the Republic of Belarus to provide access to the services of natural monopolies in the power industry, including price formation and tariff policy basics, in 2012, it became possible to transmit electric energy across the participating states, including transmission via the Russian UES grids.

There are currently five agreements in force, stipulating the parallel operation of the Russian UES with energy systems of foreign states. The parties to these agreements include: the Federal Grid Company, and the economic entities of Georgia, Mongolia, Kazakhstan, the Baltic countries, and the Republic of Belarus. The Company also concluded an Inter-system Agreement with Finland. Besides, the Company concluded agreements for the technical provisions of parallel operation with Ukraine, the Republic of Belarus and Azerbaijan.

The Company actively harmonizes power industry legal frameworks, forming and synchronizing markets for electric energy and capacity in accordance with inter-State initiatives (the CIS Power Systems and attached commissions, including the Commission for Operating and Engineering Coordination), the BRELL Energy Systems Committee, the Euro-Asian Economic Community Integration Committee, and task forces in the CIS Power Systems Executive Committee, Fingrid (Finland), KEGOC (Kazakhstan), Belenergo (Belarus) and the Russia – EU Energy Dialogue. The Company also cooperates with Asian countries (China and South Korea), developing cooperation with the Chinese State Power Grid Corporation.

At the St. Petersburg Economic Forum in June 2012, the Company signed an agreement of intent with JSC Inter RAO UES, enabling the parties to initiate, promote, develop and implement new infrastructure projects between Russia and foreign states, and among foreign states and on their territories.

The Risk Management System

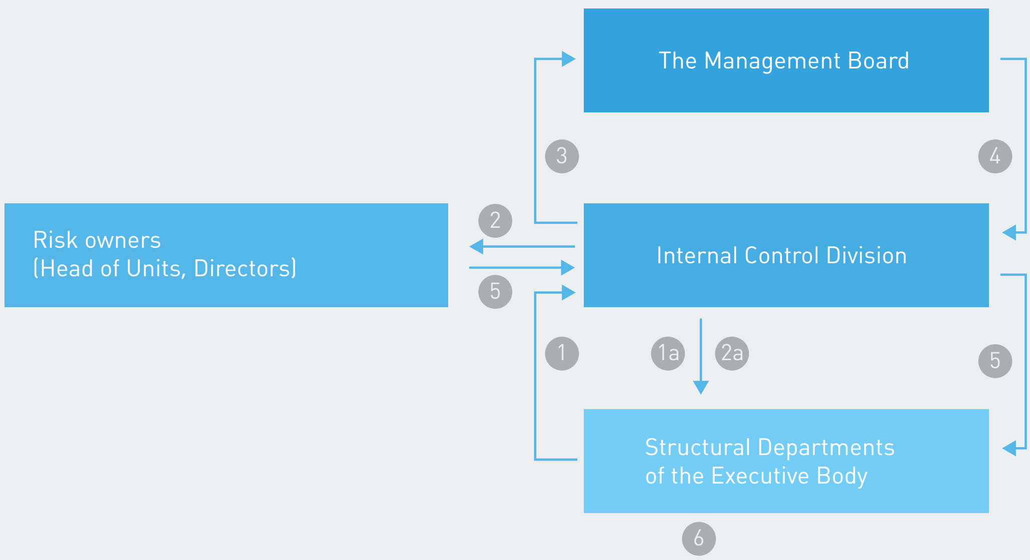
The Company has an established risk management system intended to provide for the sustainable and continuous operation and development of the Company via the timely identification, assessment and efficient management of risks that threaten the efficient economic operation and good standing of the Company,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

The risk management system is regulated by the following documents:

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

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

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



The Risk Management System determines the following:

1. Risk identification methods.

The identification of risks is performed using methods based on ISO/IES 31010 and COSO standards (analysis, threat assessment, expert assessment, and the event tree).

2. Risk Assessment Criteria

The risk assessment criteria include: probability, financial impact and risk controllability. The probability and financial impact of the risk determines its significance. The significance can become higher in case the Company is intolerant to the particular risk, or in case some of the departments of the Company's Executive Body, or its branches or SDC, are prone to said risk.

3. Risk Response Methods

The risk response methods include: risk taking, minimizing risk consequences, transferring risk to a third party, avoiding risk and other combined actions. The choice of strategy is agreed on with the Internal Control Department and is approved by the Management Board.

4. Procedures and terms for the submission of risk reports

Risk owners submit their risk reports to the Internal Control Division on a quarterly basis. If necessary, the Division adjusts the reports and coordinates the amendments with risk owners. Based on the adjusted reports, the Company prepares the Risk Matrix and the Risk Minimization Actions Summary. These documents are subject to the approval of the Company's Management Board.

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

Principal Risks and Company-wide Risk Mitigation Actions

RISK TYPE AND DESCRIPTION	EFFORTS TO MINIMIZE RISKS	RESULTS OF IMPLEMENTING RISK MITIGATION POLICY
	Operation risks	
Power system disturbance risk (equipment damage, incorrect operation of the relay protection and emergency automatics (RP and EA), resulting or potentially resulting in the disconnection of power transmission lines and/or substations, and in de-energizing power consumers)	— Implementation of the investment program in regard to the complex re-construction and construction of new facilities and the program for the improvement of lightning-surge protection and the widening of clearings for overhead power transmission lines (OPTLs); — Implementation of maintenance and repair plans, and of targeted programs pertaining to the replacement of outdated OPTL and SS equipment; — Cooperation with manufacturers pertaining to servicing and eliminating defects in supplied equipment; — Improving the operability of the equipment and advancing the qualifications of OPTL and SS personnel; — Accomplishing emergency prevention training and a field audit of the Company branches; — Closely investigating accidents; — Introducing changes in the legal framework, intended to ensure the reliable supply of power to consumers; — Operations monitoring, certification of new RP and EA devices and sets	In the autumn-winter period of maximal loads in 2012, the Company reduced the specific accident rate at UNEG facilities by 33%, compared with 2011. Signing cooperation agreements with equipment manufacturers, telecommunication companies, participating in the restoration of the certification system, the appraisal system and testing equipment, as well as developing and implementing new technologies. Operations Overview/Upgrading Reliability p. 47
Risk of employee injury at the Company facilities, resulting in damages to health or death	— Developing and updating the legal framework on labor safety and injury prevention; — Implementing measures intended to assess the condition of labor safety and its improvement at the Company's facilities.	In 2012 the injury rate fell by 14.3%. Social Responsibility and Sustainable Development /Social Aspect – Production Safety p. 85
	Industry risks	
Risk related to government tariff regulation (changes in the tariffs or parameters of tariff regulation)	— Consistently implementing RAB regulation parameters and preparing well-balanced and economically feasible proposals; — Preparing high quality materials as a rationale for establishing/reviewing tariffs.	In May 2012, the rate of growth of tariffs for 2012-2014 and the Company's investment program were simultaneously adjusted. Tariff Regulation p. 108 Cost Optimization p. 112
Risks of the nonfulfillment of plans for the timely commissioning of investment program facilities	— Setting priorities for the investment programs; — Controlling the implementation of the plan for financing investments and complying with the operating schedule; — Financial provisions for counter-parties' liabilities.	In 2012, our plans for commissioning overhead transmission lines were 91% realized (3,643 km against the planned 4,023 km), and plans for commissioning substations were exceeded by 26% (17,827 MVA against the planned 14,152 MVA). Operations Overview/Investment activities p. 54
Risk of income gap due to the difference between the customer contract demand, taken into account during tariff formation and power actually consumed	— Including customer contract demand into agreements with contractors, this customer contract demand was accounted for by the Federal Tariff Service (FTS) during tariff formation; — Imposing sanctions on contractors for the excess of the maximal actually consumed power by more than 10% of the value of customer contractor demand; — Expertly assessing contractor information about customer contract demand and the submission of this information to the Federal Tariff Service to set a justified tariff.	The supply of electric energy to distribution grid companies' grids, direct consumers and the independent JS-energo increased 2.8% compared with 2011 Operations Overview/Electricity Transmission p. 39
	Financial risks	
Risk of the non-fulfillment of liabilities by counter-parties	— Settling overdue accounts receivable (court reclamation of debts, setting off claims, debt re-structuring, charge offs); — Reviewing the financial status of counter-agents at the procurement stage and conducting further monitoring at the stage of performing contractual obligations; — Providing financial provisions for counter-parties' liabilities; — Monitoring debt status by the managers responsible for contracts, prejudicial interactions with counter-parties in accordance with Federal Grid Company's Rules for receivables and payables management.	Decreased level of accounts receivable for 2012. Financial Performance Overview p. 103

EFFORTS TO MINIMIZE RISKS	RESULTS OF IMPLEMENTING RISK MITIGATION POLICY	RISK TYPE AND DESCRIPTION
— Diversifying debt financing sources and instruments; — Building relationships with major Russian and foreign banks; — Opening credit lines in the largest reliable banks with maximal amounts of loans and long-term maturity;	In 2012, Federal Grid Company's investment program had 100% debt financing sources. The Company fulfilled the resolution of the Board of Directors on diversifying investment program's financing sources dated 27 April 2012 in full: — The prospectus for the RUR125 billion bond issue was registered; bonds for RUR45 billion were placed on MICEX. — The prospectus for the RUR100 billion exchange bonds for a 3-year period was registered; bonds for RUR10 billion were placed on MICEX. — The international prospectus for the RUR100 billion Eurobonds was registered; bonds for RUR17.5 billion were placed on the Irish Stock Exchange. In 2012, Federal Grid Company became the first Russian electric energy company that placed 10-year inflation protected bonds. Financial Performance Overview/Debt Portfolio p. 113	Risks of insufficient financing of the Investment Program
— Controlling the payments level and the Company's liabilities in foreign currencies	Concluding long-term contracts with fixed price. The Company's financial status, liquidity, financial sources and performance results are not exposed to major currency risks. The Company does not have liabilities denominated in foreign currencies. Financial Performance Overview/Debt Portfolio p. 113	Foreign Exchange risk
— Controlling the debt burden and creditworthiness of the Company in accordance with Federal Grid Company's Regulations on Credit Policy; — Retaining a high level of unspent credit limits at major Russian and foreign banks; — Forming the Company's diversified credit portfolio in respect to instruments and terms.	Federal Grid's international credit ratings are placed in the investment category; loan servicing is held in strict compliance with approved schedules. Financial Performance Overview/Debt Portfolio p. 113	Liquidity risk
— Attracting financing with fixed interest rates	95% of the Company's credit portfolio is formed via loans and borrowings with fixed interest rates Financial Performance Overview/Debt Portfolio p. 113	Interest rate risk
Corporate risks		
— Implementing pre-court settlement procedures; — Concluding amicable settlement agreements during court proceedings; — The Company's legal position is to refuse to satisfy claims and actions; — Satisfying claims; — Actually performing obligations and restoring violated rights.	The claims settled out of court amounted to some RUR16 million (for the Company's branches). The amount collected according to the Company's actions in 2012 comprised RUR230 million, with actions refused in the amount of RUR635 million. Some RUR737 million were collected in favor of the Company (including the settlement of an amicable agreement in favor of the Company).	Risk of claims and actions presented to the Company or by the Company
— Analyzing references to the Company in mass media; — Distributing press releases and other information material intended to form positive information coverage for the Company; — Conducting press conferences, briefings and other events for the mass media; — Participating in major forums and exhibitions; — Communicating the Company's policy on strategic communications and the Company's Anti-corruption Policy to the employees; — Applying the Company's unified corporate design standards.	No cases of negative references to the Company in the mass media were registered in 2012. Social Responsibility and Sustainable Development p. 72	Risk of damaging the Company's business reputation as the result of inefficient communication

THE LENGTH OF OUR TRANSMISSION LINES IS 131.6 THOUSAND KM. THIS IS EQUIVALENT TO A SPACESHIP ORBITING THE EARTH FOUR TIMES.

Operations Overview

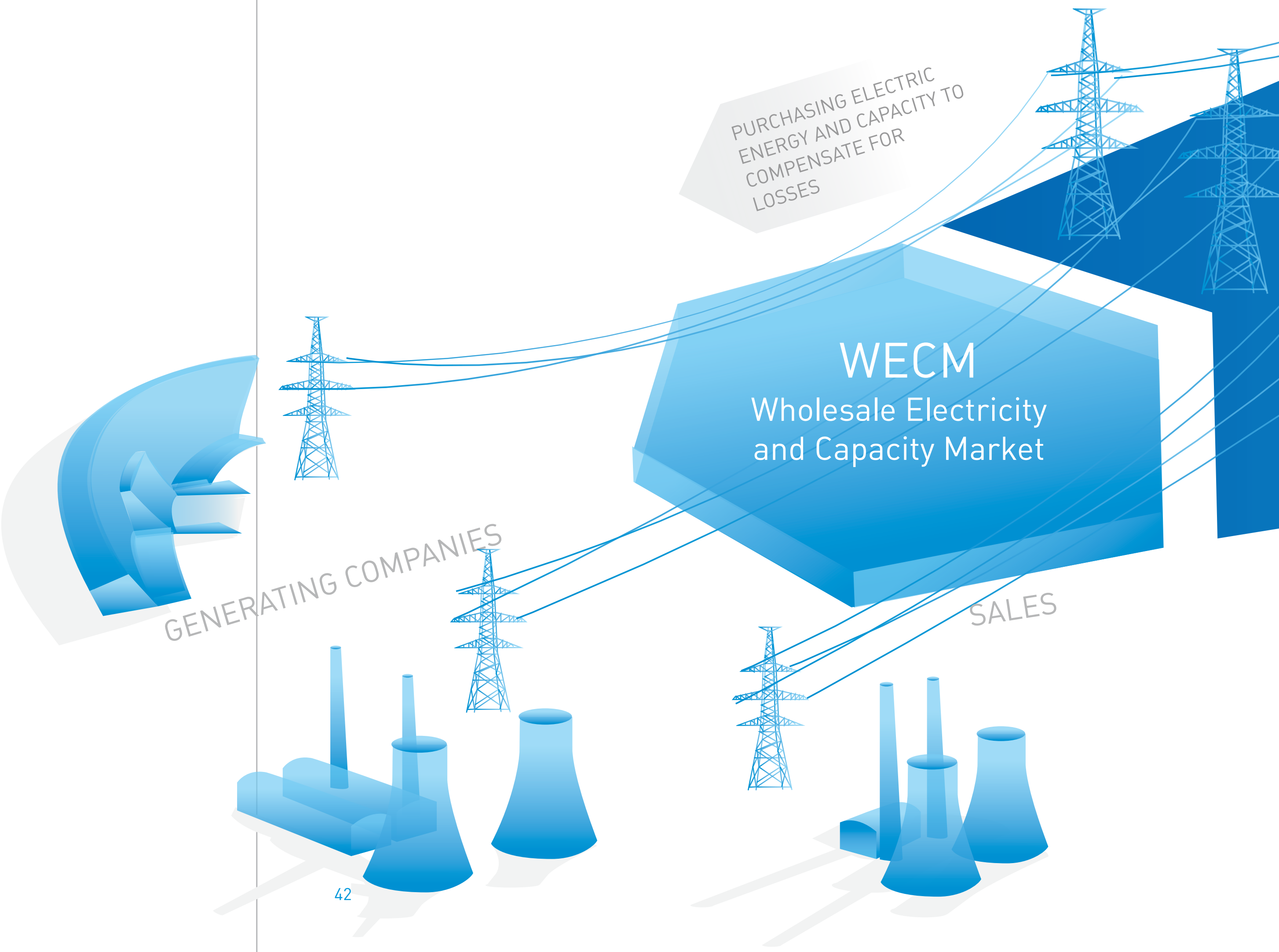
131 604 км

Federal Grid Company of Unified Energy System

Electricity Transmission

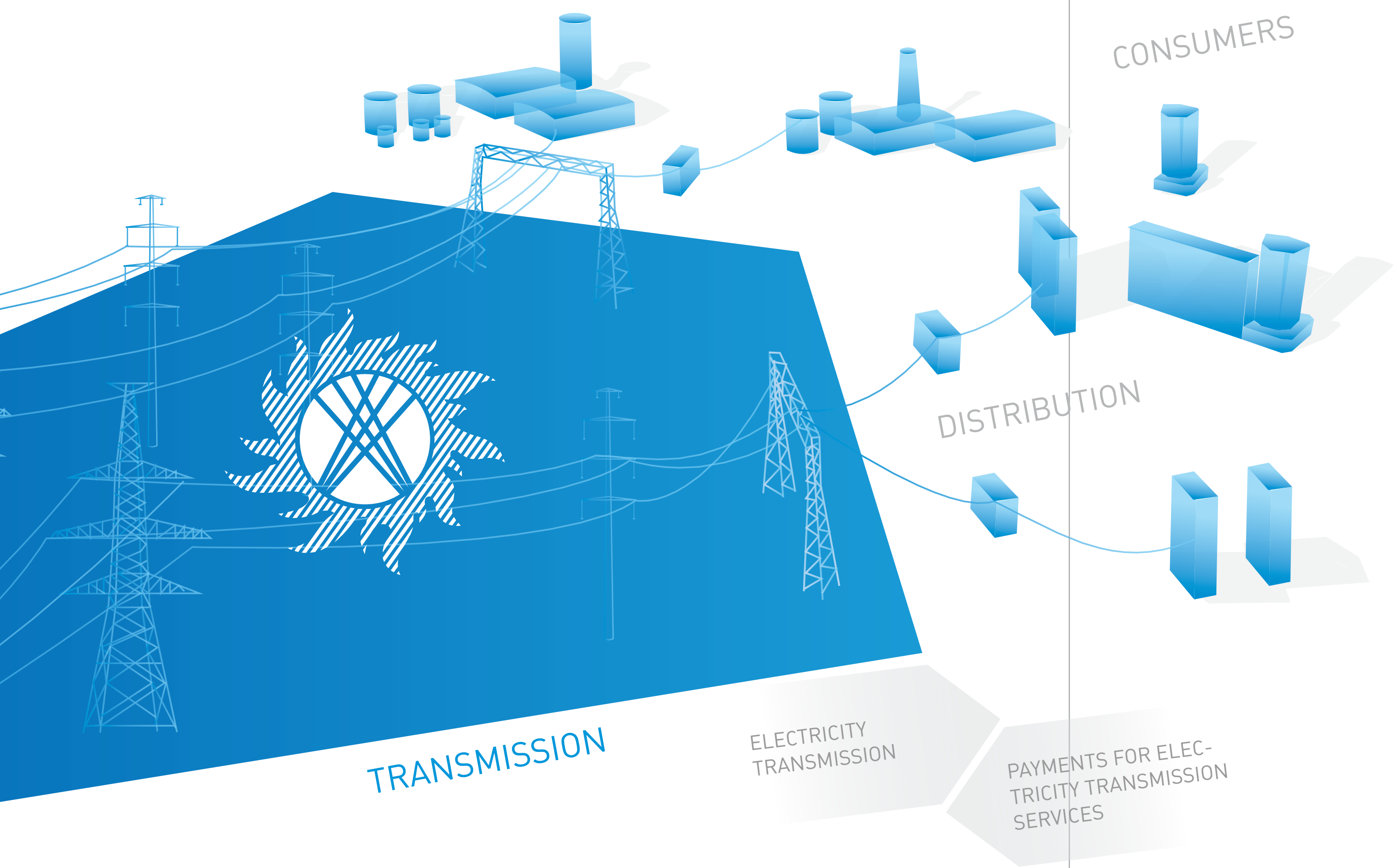
Electricity transmission through the Unified National (all-Russian) Electric Grid (UNEG) is one of the biggest tasks of the country's energy sector and the main activity of our Company. Payments for electricity transmission services are the primary revenue source for Federal Grid Company.

According to Russian law, the UNEG electricity transmission services are the domain of Federal Grid Company, which manages the UNEG. The UNEG electricity transmission services are classified as a monopolistic activity regulated by the State.



The price of electricity transmission services is determined by corresponding rates set for different constituent territories of the Russian Federation by the Russian Federal Tariffs Service (FTS), taking into account process losses of energy during electricity transmission over the UNEG. Rates approved by the Russian Ministry of Energy are set as follows:

— The price of electricity transmission services to maintain UNEG electric facilities;
— The price of normative process electricity losses in the UNEG.



In 2012, the Company supplied its consumers with 517,130.7 million kWh.

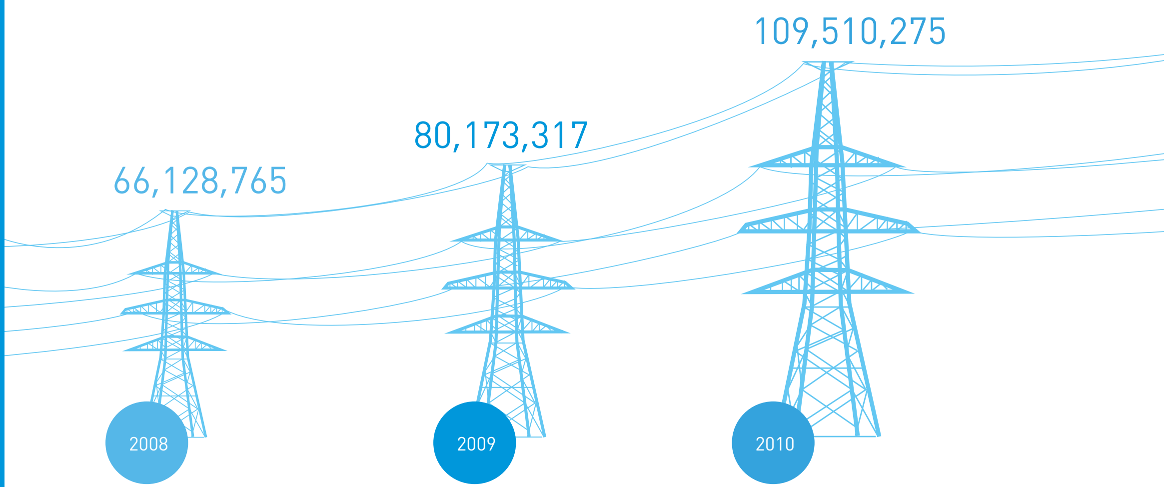
Our Company independently purchases electric energy on the Wholesale Electricity and Capacity Market (WECM) to compensate for actual UNEG losses, after deducting losses recorded and paid for by WECM participants at equilibrium prices.

Electricity Transmission Services

136581431000

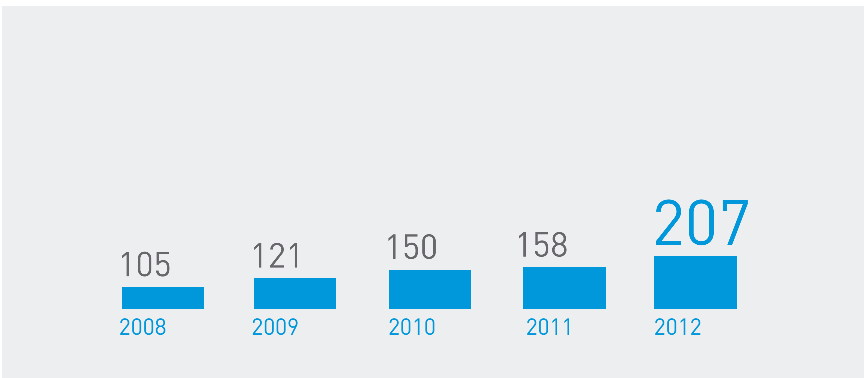
RUBLES,
REVENUE FROM ELECTRICITY TRANSMISSION SERVICES

In 2012, the volume of electricity transmission services amounted to RUR136,581,431 thousand.

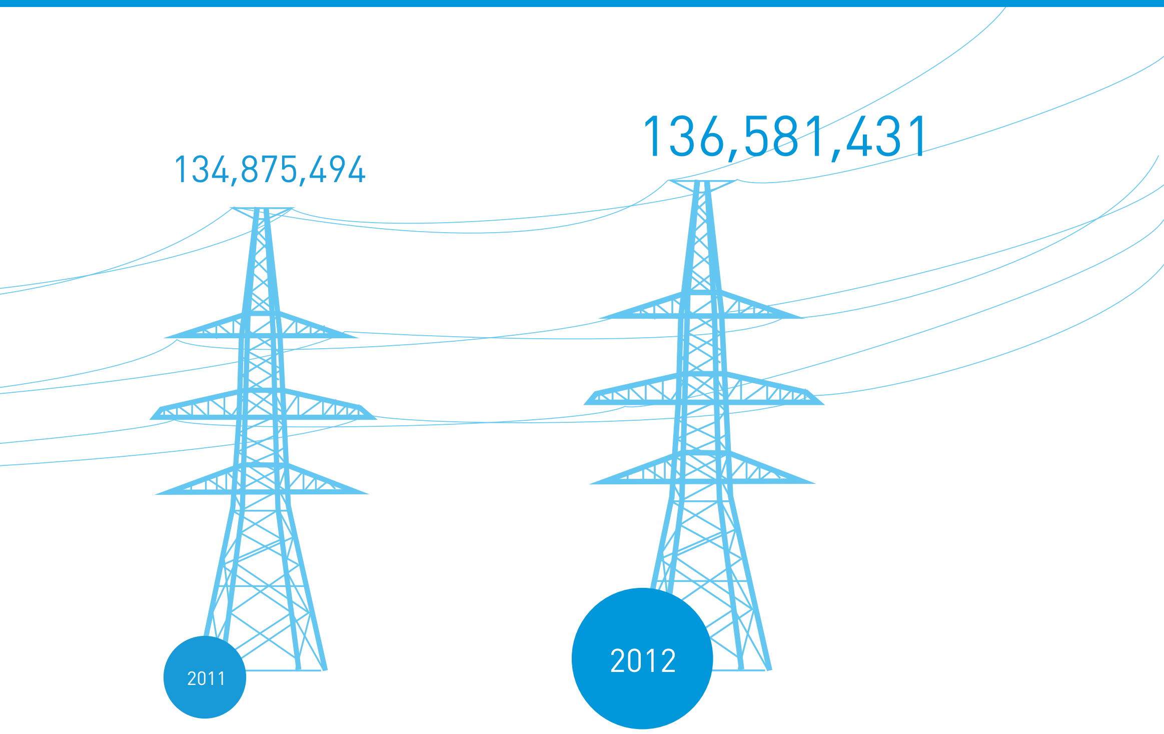


Number of the Company's Contractors

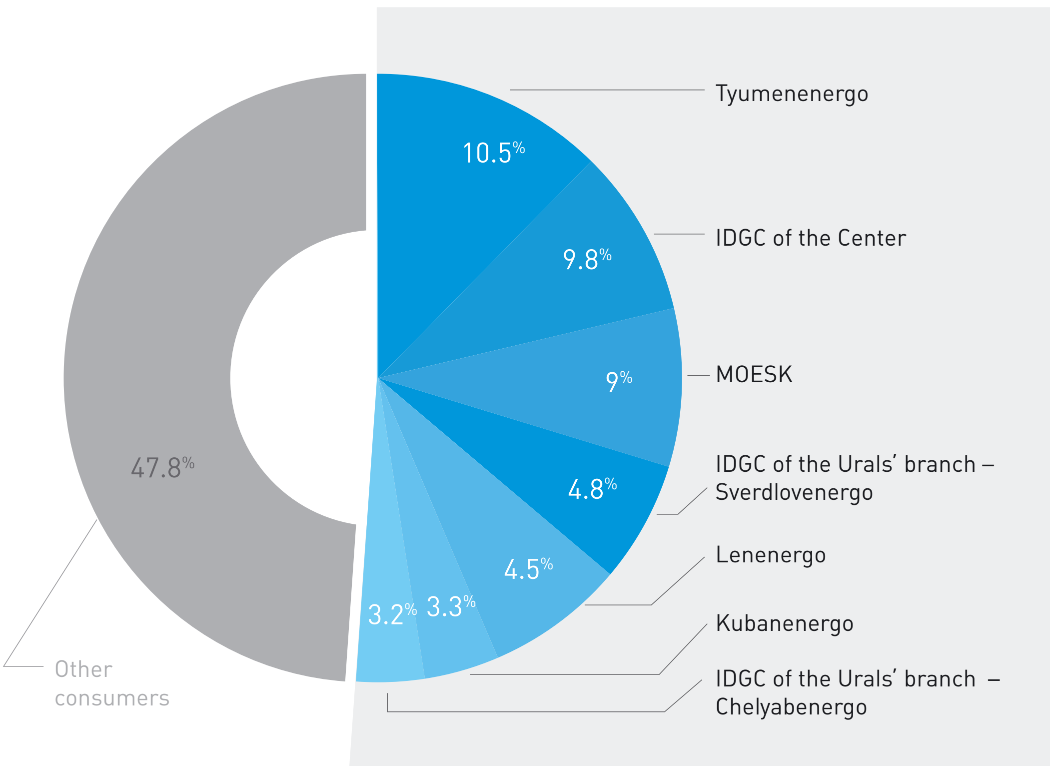
Furthermore, the number of contractors with which the Company signed agreements for electricity transmission through the UNEG has significantly increased during the 2008-2012 period. It is predicted that in the next few years, the number of Company contractors will continue to grow due to the implementation of new technological connections to the UNEG, satisfying judgments that require the Company to enter into direct contracts with contractors and gradually terminating the last mile* mechanism.



* "The Last Mile" is a type of cross-subsidization, under which large industrial users connected directly to Federal Grid Company's backbone grids also pay the tariffs of the IDGC Holding's distribution networks to which part of the Company's grid facility was leased (the "last mile").



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



52.2%

SHARE OF THE COMPANY'S LARGEST CONSUMERS IN 2012 REVENUES

Technological Connection

Technological connection is an integrated service rendered by the Company to provide for the actual connection of consumer energy receivers (power installations) of potential contractors to the power facilities of grid organizations. Technological connection services are provided to new, as well as to existing, consumers if electricity demand increases.

The structure of major technological connection consumers

54%
Consumers (large-scale businesses – fuel and energy industry, steelmaking, and construction)

41%
Distribution grid companies

5%
Other

Business processes - technological connection

Time limits:	15 days (up to 9 month to the UNEG)	30 days (up to 11 month to the UNEG)	6 month — 2(4) yearth	30 days	Total: from 6 month to 2(4) yearth
Application	Approval of technical specifications and design	Concluding the technological connection agreement	Execution of work	Protocols	Energy supply
	1. Development of technical specifications; 2. Adjustment of the investment program; 3. Tender. Design development; 4. Resolving land-related formalities; 5. Appraisal of project documents.	1. Establishing payment for technological connections; 2. Sending offers on technological connections.	1. Adjustment of the investment program; 2. Receipt of permission for construction; 3. Tender. Construction and assembly.	1. Registration of electricity meters; 2. Approval of the technical and backup reserve; 3. Approval of balance inventory and operational responsibility; 4. Sending the technological connection protocol.	

The Company concluded 376 technological connection agreements during the reporting period, which is 50% more than in 2011, with the maximum amount of power per technological connections agreements with consumers and distribution grid companies set at 2.78 GW, a 23% increase over the previous year's level.

In 2012, the Company implemented the following major technological connection projects:

Technological connection of mining and processing facilities:

— ESPO-I, II Expansion, Russia's Far East (133.7 MW);

— RN-Yuganskneftegaz, the Tyumen Region (12.9 MW).

Technological connection of residential projects:

— RGS Real Estate, St. Petersburg (34 MW, Stage 1).

Technological connection of manufacturing companies:

— The Seversk Pipe Plant, the Sverdlovsk Region (18 MW);

— The Hyundai Plant, the Primorsky Region (3,5 MW);

— Tulacement, the Tula Region (40 MW);

— The Eurocement Group plant, the Voronezh Region (37 MW);

— The Serebryansk Cement Plant, the Ryazan Region (33,6 MW);

— NLMK-Kaluga electrometallurgical plant, the Kaluga Region (42 MW).

06.12.2012

Our Company has completed the technological connection of the State corporation Olympstroy's electrical installations to the 110 kV Imeretinskaya sub-station. Thus, we have provided electricity supply to the eight-million-viewer Adler-Arena Skating Center, which will hold speed-skating competitions.

We are actively participating in the important Russian problem of increasing accessibility to the energy infrastructure, carrying out an action plan "Improving accessibility to energy infrastructure," which was approved by the Russian Government. It provides for reducing the timing and stages for technological connections. Our task is to synchronize the development of the industry in different Russian regions with the potential of the backbone electric grid complex.

To raise the awareness of the applicants and to ensure the transparency of technological connection services, our Company has launched a new information portal, "Technological connection services", where potential applicants can get online access to information on technological connections, learn about the geographical location of the main substations and apply for technological connections. Launching the portal was another step towards developing long-term planning and real-time interaction in coordinating with regional authorities the need to expand power grid capacity and to avoid over-investment risks.

Technical Losses Optimization

The 2012 Program to reduce energy loss in the UNEG was developed within the framework of Federal Grid Company's Energy Saving and Power Efficiency Program for the 2010-2014 period and included three key areas:

Optimizing the schematic and operating mode parameters under conditions of both operation and continuous control of electric grids

— Maintaining optimal operational modes concerning reactive power and voltage;

— Shutting down electric grid equipment operated under low loads;

— Reducing the duration of the maintenance and repair for primary grid equipment.

Decreasing energy consumption spent on in-house substation needs

— Optimizing the duration and number of operated transformer and automatic transformer cooling fans;

— Optimizing the operation of heating and lighting systems in the SS control rooms;

— Providing for the automatic operation of heating systems used to heat the tanks and electric drives of oil-filled circuit breakers;

— Installing energy-saving lamps and lights in outdoor switchgears;

— Upgrading the energy efficiency of buildings.

Constructing, re-constructing and developing electric grids.

— Installing reactive power compensators;

— Replacing overloaded transformers and commissioning additional power transformers at existing substations.

— Optimizing electric grid loads by constructing new overhead lines and substations.

2012 Technological effect, thousand KWh

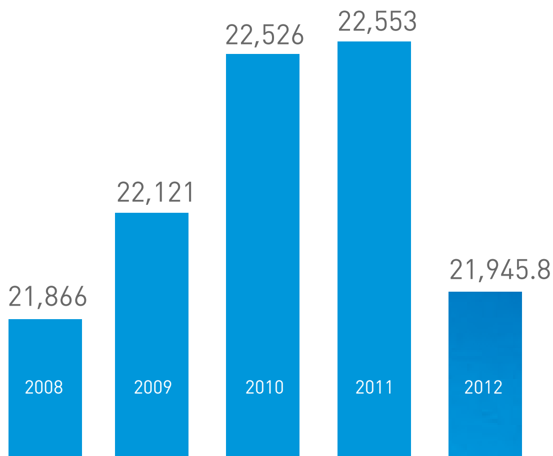
58,953.96

123,642.38

31,422.77

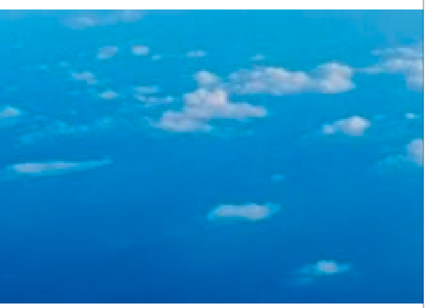
Annual volumes of electric energy loss, mln of KWh

In 2012, the total economic effect of implementing measures aimed at reducing UNEG losses reached 214,019.1 thousand kWh. The electric energy loss reduced by 3% and stood at 21,945.8 million kWh.



Upgrading reliability

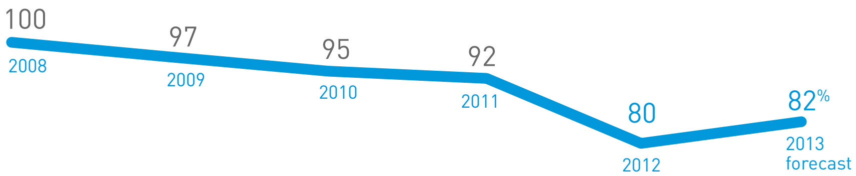
Reliable and stable power supply guarantees the well-being and prosperity of any country, but in Russia, with its harsh northern climate, electricity supply reliability is strategically important. We understand the great responsibility that rests on us and we do our best to ensure that electricity reaches our consumers in a stable manner, without power setbacks and in compliance with all technical parameters.



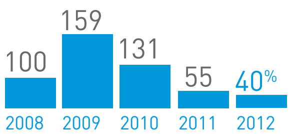
In 2011-2012, thanks to planned work to maintain the normative condition of electric grid facilities, constructing new facilities and re-constructing existing ones and upgrading employee competence, the under-supply of electric energy to consumers has been reached at a stable low level.

From 2009 to 2011, under abnormal environmental conditions, Federal Grid Company ensured the required reliability of electric grid facilities and stable UNEG operation, having fulfilled its obligations for reliable power supply to consumers, the following were prevented:

Measures adopted by our Company have reduced the specific (per 1,000 units) failure rate by 20%, compared with 2008:



Decrease in failures that occurred due to operational flaws



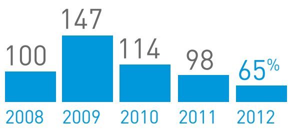
Upgrading the quality of equipment handling;

Improving corporate culture;

Analyzing accidents.

60%

Decrease in failures that occurred due to the incorrect or faulty actions of employees



Increasing executors' responsibility level;

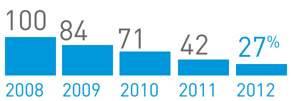
Upgrading the level of responsibility for specialists and managers who control work progress;

Increasing staff motivation;

Releasing documents and information emergency materials.

35%

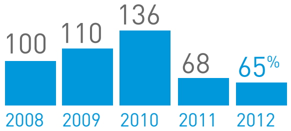
Decrease in the number of failures that have occurred through damage to support insulators



Implementing targeted investment programs to replace obsolete equipment

73%

Decrease in the number of failures due to faulty high voltage circuit breakers



Modernizing outclated equipment at the Company's facilities

35%

Technical policy

The Company's Regulations on Technical Policy were adopted in February 2011. The Policy is intended to determine the most advanced engineering requirements and solutions in the capital construction and operation of UNEG facilities, and to set basic priorities for the UNEG's innovative and prospective development. Adhering to the Regulations on Technical Policy will enable the Company to optimize the use of the existing investment resources, to improve the efficiency of electric grid complex operation, to lower operating costs, to improve systemic reliability of the UNEG's operation and to satisfy growing energy demand.

In November 2012, the Company's Board of Directors approved the Regulations on the Unified Technical Policy in Russia's electrical grid complex. These Regulations will be submitted to the Board of Directors of JSC IDGC Holding for approval.

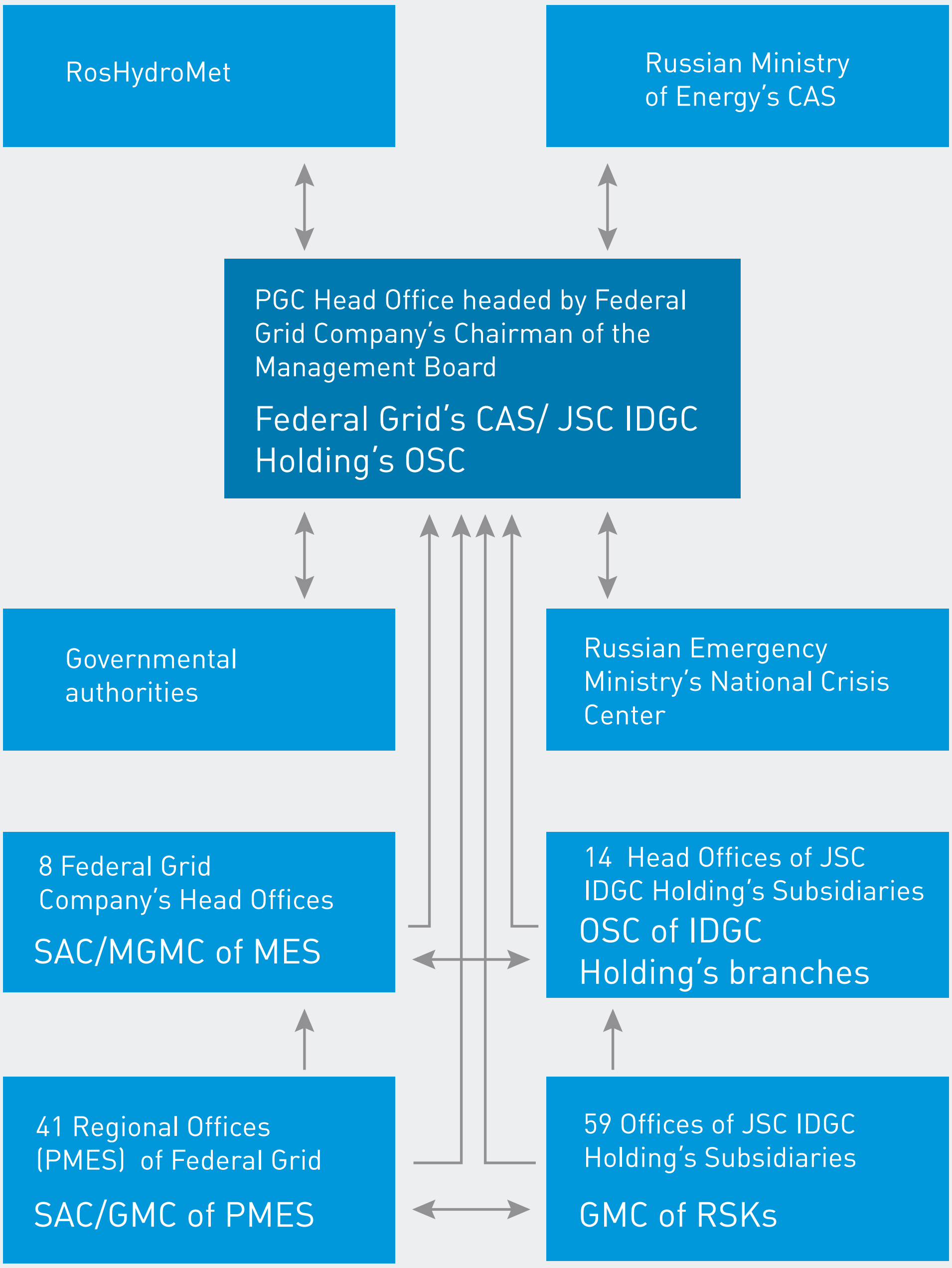
The Unified Technical Policy in Russia's electrical grid complex is aimed at determining the main technical areas that enhance the reliability and efficiency of Russia's electrical grid complex in the short- and medium-term with appropriate industrial and environmental safety based on innovative development principles that provide non-discriminatory access to electric grids for all market participants.

Expected effect from the implementation of the Unified Technical Policy

30% reduction in the likelihood of system failures	Reduction in electricity losses compared with existing figures	Load leveling	Multiple decline in the area occupied by substations

We continue to cooperate with JSC IDGC Holding. Our mutual work during the year resulted in the adoption of rules of information exchange between branches of Federal Grid Company - MES and SDC JSC IDGC Holding. These rules allow us to obtain data on the time, place and circumstances of accidents in real time. In addition, we have developed a joint operation scheme for electrical grid facilities of Federal Grid Company and JSC IDGC Holding. We are also creating a unified database for emergency reserves and a joint main office for the electrical grid complex. In addition, together with JSC IDGC Holding, we have launched "hot lines" for round-the-clock operative response and information interactions with the public, electricity consumers and other electric power industry agents, as well as executive agencies on issues that concern reliable electric power supply.

Scheme of Federal Grid Company and JSC IDGC Holding's joint efforts to ensure the reliable operation of the electric grid system in the event of an interruption of power supply to consumers and other contingency situations



SAC – Situational and Analytical Center

OSC – Operational and Situational Center

PGC – Power grid complex

MGMC - Main Grid Management Center

GMC - Grid Management Center

Fixed Assets Renovation Program

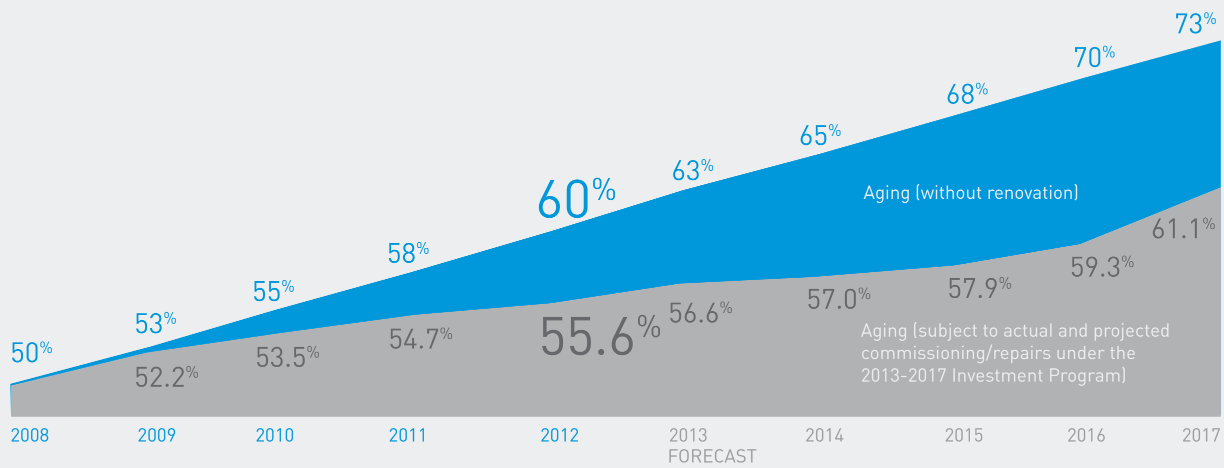
On 31 October 2012, the Russian Ministry of Energy approved the Fixed Assets Renovation Program in the Company's 2013-2017 Investment Program. The Renovation Program, aimed at ensuring the reliable and efficient operation of the electric grid complex, provides for commissioning facilities with a total capacity of 31,357 MVA and reconstructing 1,231 km of electric energy transmission lines.

During the reporting year, as part of this program, we energized 23 key comprehensive facilities and 20 key facilities of non- comprehensive reconstruction. Among the most important renovation facilities are: the 220 kV Irtysh, the 220 kV Taksimo and the 500 kV Arzamasskaya substations.

For the period from 2013 to 2017, total program financing amounted to RUR194,703 million. As part of complex reconstruction, 154 substations and 95 electric energy transmission lines are planned to be modernized.

By increasing capital investment in new construction and renovation and implementing special programs to enhance safety, we managed to reverse the aging trend for both facilities and equipment.

Estimated and predicted aging of lines, taking into account changes in the steady operation of the power grid* (the expected renovation time for lines subject to new construction is 40 years, the length is more than 120,000 km)



* When Federal Grid Company's 2013-2017 Investment Program, approved by Order #531 of the Russian Ministry of Energy (dated 31.10.12.2012), is implemented.

In 2013, we plan to invest RUR41,208,76 million to refurbish fixed assets as part of the Company's Renovation Program.

The volume of commissioned facilities for complex reconstruction will amount to 8,170 MVA.

Repair program

The annual repair program, as well as the timely and thorough preparation for special operation periods, allows the Company to maintain the normative state of equipment.

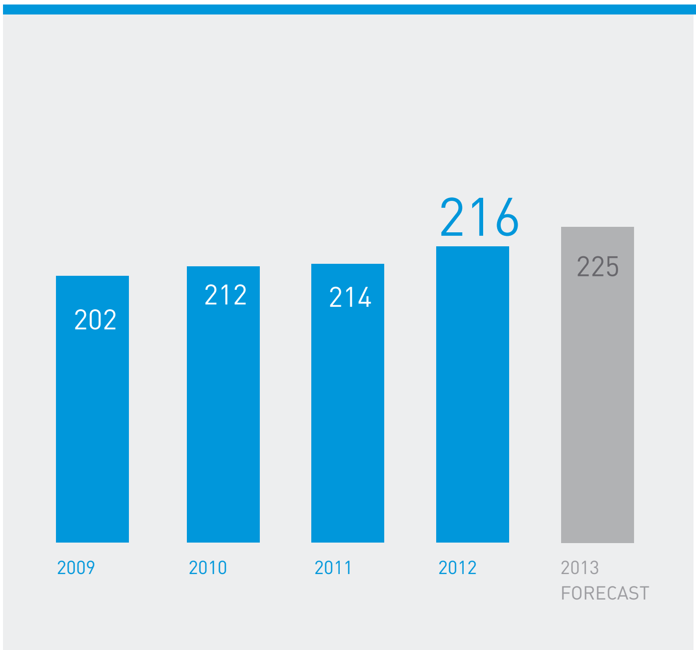
The Company's program is based on a year-by-year rolling plan for the five-year period.

Based on 2012 results, Federal Grid Company's repair program was realized at 103% of the planned figure. The plan for stubbing out the overhead line paths was carried out at 101%.

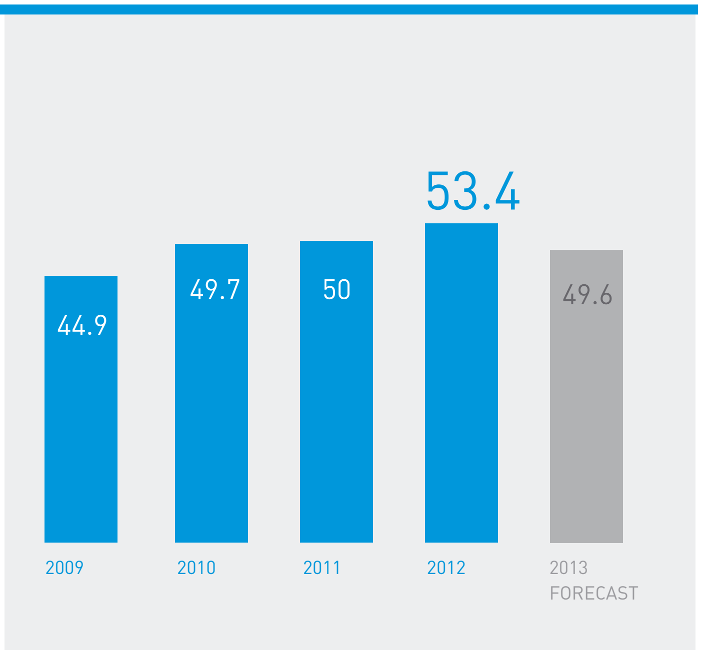
103%

FULFILLMENT OF THE FEDERAL GRID COMPANY'S REPAIR PROGRAM

Repair of transformers and reactors that are 110 kV and above, phases



Stubbing out of the overhead line paths, thousand hectares



Work during special periods

17.07.2012

We completed all major power supply restoration work in the Tuapse District of the Krasnodar Region, which was affected by the flooding. In the first place, 6-10 kV power facilities that provided electricity transmission to ultimate consumers were restored. Then, the 0.4 kV consumer network was repaired. The Company's 220-500 kV power lines and substations were not affected by the disaster and were operating normally. However, to ensure the high reliability of power facilities during the restoration period, line team specialists held off-schedule inspections on a daily basis.

In 2008-2012, the Company achieved the target reliability level for the electric grid complex and ensured the stable operation of UES of Russia in conditions of abnormal natural phenomena (such as weather conditions). 2010 had a remarkably long hot spell, extensive forest fires and heavy icy rain in Moscow and the Moscow Region just before the New Year. During the summer of the reporting period, torrential rains resulted in a disaster in the Krasnodar Region, and December 2012 was the coldest one (December) in 70 years. Twenty-three temperature lows were set in that month. Beforehand, we prepared for peak loads in the electrical network during the autumn-winter period, seasonal floods, fires, storms, and how to prevent emergency situations related to power outages in major cities and regions.

During the 2012-2013 autumn-winter peak load period, we reduced the specific accident rate in the UNEG by 11.9% compared with the 2011-2012 autumn-winter period.

That was made possible due to special measures undertaken by the Company aimed at making more intensive preparations for the special periods in 2012, including: a two-stage preliminary check for the readiness of electric grid facilities to work during the high load period. The General Directors of the Company's branches - MES and JSC IDGC Holding's subsidiaries prepared and approved a joint operational scheme for electric grid facilities and optimized resource allocation.

As a result of this successful work, on 9 November, the Company received a certificate of readiness for operation during the 2012-2013 autumn-winter period. This certificate certifies the timely and proper execution of a range of measures aimed at upgrading the reliability of power supply to consumers.

Operational and process management

Operational and process management of Federal Grid Company is intended to ensure the reliable operation of UNEG facilities and the fulfillment of technological modes set by the System Operator's control centers. Our task is to comply with quality and safety requirements when we operate UNEG facilities. We are actively working to reduce the number of process disturbances due to operating personnel errors, and are developing and carrying out UNEG development programs in collaboration with the System Operator's control centers.

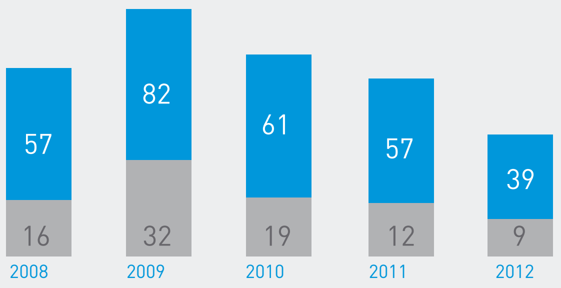
Moreover, we are commissioning new generation substations with modern automated equipment control systems. This enables us not to have our operational staff on duty at substations and delegates their functions to specialists at the network control centers. These innovations reduced maintenance costs and led to shorter elimination times for process disturbances.

0

There have been no violations of the standard for allowable voltage levels

In 2012, we successfully resolved the problems of operational and process management, which has enabled us to achieve the following results:

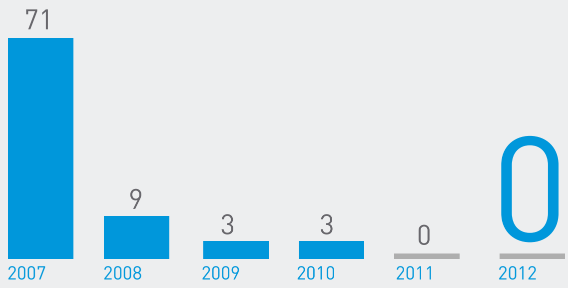
Reducing the number of process disturbances related to the faulty actions of operating personnel:



Process disturbances related to the faulty actions of all types of personnel

Process disturbances related to the faulty actions of operating personnel

There have been no violations of the standard for allowable voltage levels in the UNEG for two consecutive years:



Investment activities

The Company's Investment Program is one of the most large-scale, ambitious programs in the industry. Key provisions of the UNEG development plan and the general scheme of power industry facilities with planned generation inputs form its basis. Investing in the UNEG development is of great national importance, so part of the program is paid for with federal budgetary funds. Other funding sources for the program include: the Company's own funds, proceeds from additional shares, proceeds from payments for technological connections, bond issues and loans.

The 2012 Investment Program

In 2012, as part of the Investment Program, we completed numerous major projects of great importance for the socio-economic development of Russia's regions. The energy infrastructure facilities of the Primorsky Region, the first phase of the ESPO pipeline (Stage I – Expansion and Stage II) and power provision facilities for the 4th power unit of the Kalininskaya NPP were commissioned in a timely manner.

↑ 26%

over-fulfillment of commissioning plans for substations

Our investment plans in 2012 were almost completed. Plans for commissioning overhead transmission lines were 91% realized (3,6543 km against the planned 4,023 km), and plans for commissioning substations were exceeded by 26% (17,827 MVA against the planned 14,152 MVA). Capital investments were implemented at 103% (RUR192,684).

3,643

KM TRANSMISSION LINES
PUT INTO OPERATION IN 2012

Principal areas of investments in 2012

(Factual data as of 31 December 2012)

Investments RUR179,899 million

- Power provision facilities: NPPs, HPPs and TPPs **64,808 MVA, 767,4 km** — RUR14,191 million; RUR379 million
- Facilities to upgrade power supply reliability for Moscow, St. Petersburg, and Tyumen **3,402 MVA, 621,1 km** — RUR11,501 million; RUR10,915 million
- Facilities included in the agreements with regional administrations (except for Moscow, St. Petersburg, and Tyumen) **626 MVA, 889,8 km** — RUR18,486 million; RUR789 million
- Development of backbone grids, which did not enter into any agreements **902 MVA, 1387,6 km** — RUR48,512 million; RUR4,656 million
- Facilities for technological connections **9.2 km** — RUR4,908 million
- Renovation Program for Federal Grid Company's fixed assets **7,009 MVA, 82,1 km** — RUR33,584 million
- Development of process control, IT technologies and additional target programs — RUR7,290 million
- Facilities included in the Federal Target Program "Economic and Social Development for the Far East and Trans-Baikal for the Period till 2013" — RUR12,612 million
- The program for the development of power networks in the Sochi Region for the 2008-2014 period, providing power to Olympic sporting facilities **432 MVA, 28 km** — RUR7,902 million
- Purchases of facilities for production purposes — RUR398 million
- Innovations and energy efficiency — RUR4,327 million
- Other — RUR4,360 million
- Design and survey work (future years) — RUR111 million

New construction

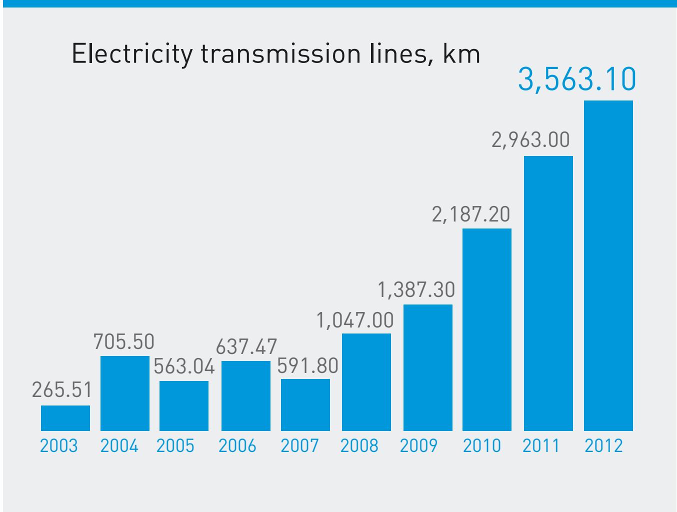
Retro-fitting and re-construction

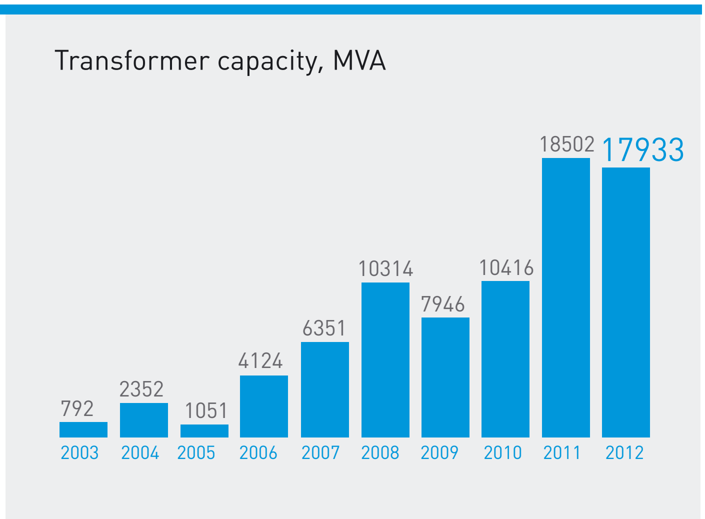
19268400000

RUBLES
Capital investments implemented in 2012

Investment dynamics for 10 years

For the most recent ten years, our Company has put into operation 13,990.82 km overhead electricity transmission lines and 79,765 MVA of transformer capacity:





KM OVER 10 YEARS

13,911

MVA OVER 10 YEARS

79,780

Our gradual approach to investment program implementation generates clear positive results: in respect to all operating facilities of the backbone grids, the length of transmission lines grows approximately 3% per annum, and the annual increase in transformer capacity stands at 6%.

The 2013-2017 Investment Program

AGGREGATE AMOUNT
2013-2017 ГГ:

BILLION RUBLES
OF PLANNED INVESTMENTS

775.5

OF FACILITY COMMISSIONING

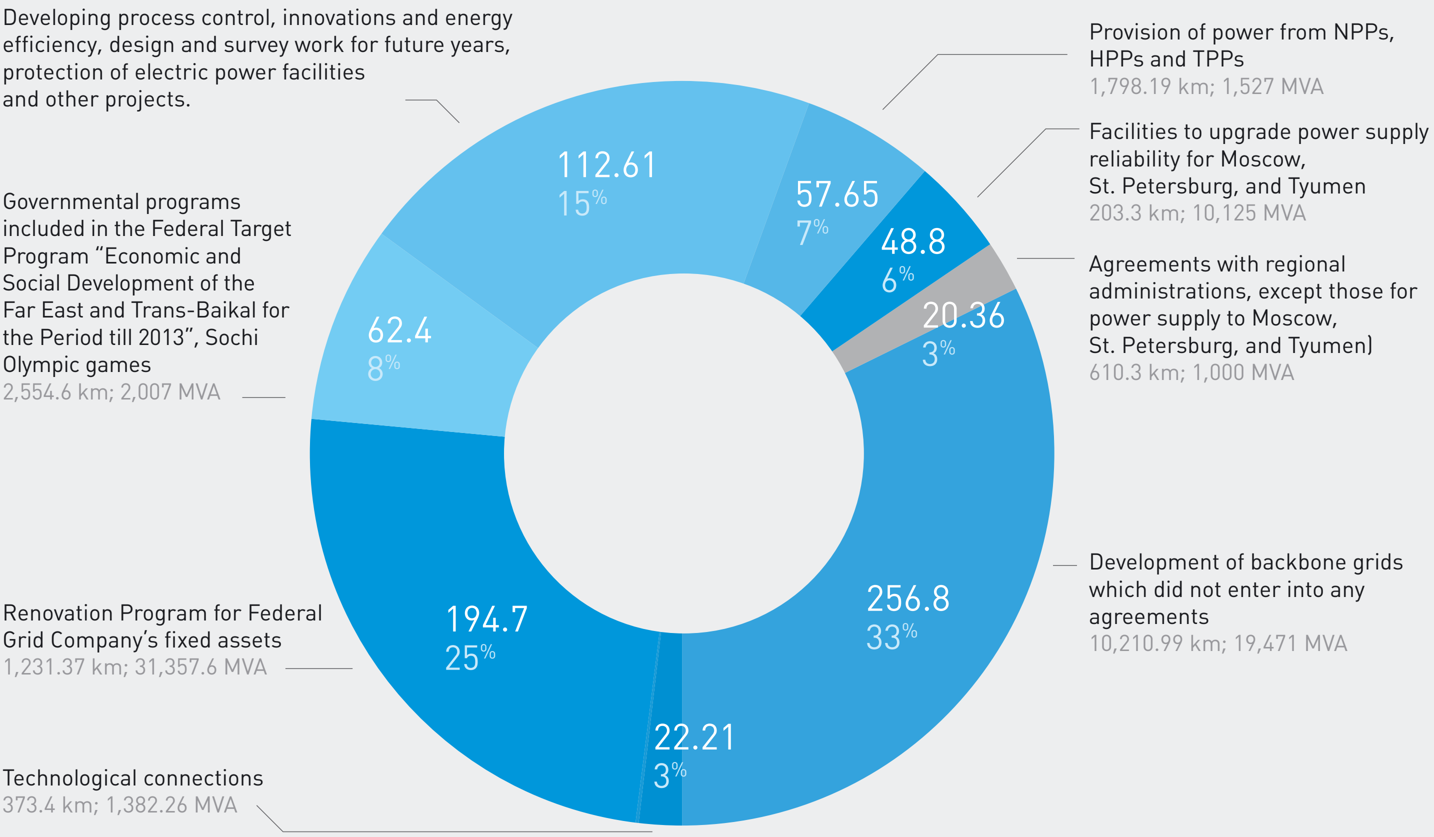
66,869.86
MVA

16,984.65
KM

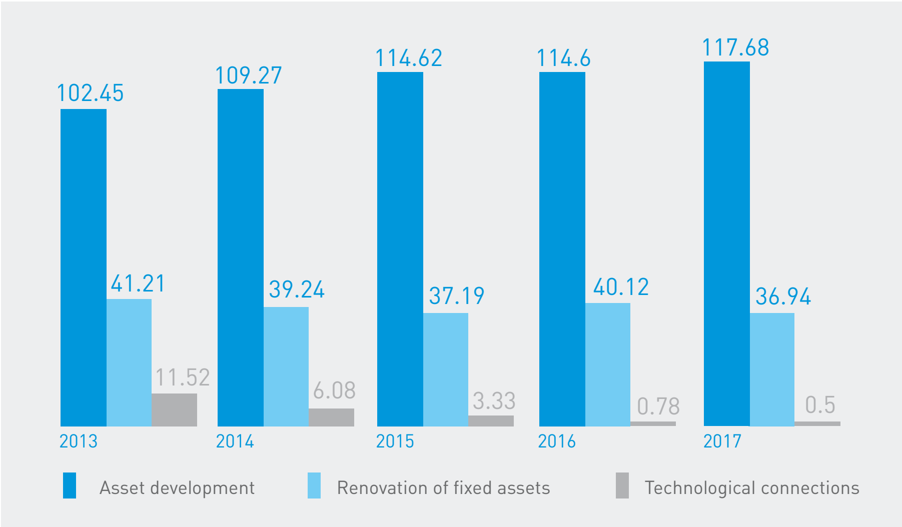
On 31 October 2012, the Russian Ministry of Energy approved the investment program for our Company for the period from 2013 to 2017. Total financing for the Company's Investment Program for the 2013-2017 period will amount to more than RUR775.5 billion.

As part of the Investment Program, we plan to spend RUR194.7 billion for the renovation of fixed assets of the electric grid complex, and RUR22.21 billion - for technological connections. To develop the grids which did not conclude any agreements with the regions, the Company will spend RUR256.8 billion. To upgrade the reliability of power supply to Moscow, St. Petersburg and Tyumen, the Company will spend RUR48.8 billion. The Company will invest RUR112.61 billion in innovations, upgrading energy efficiency and developing process control, design and survey work for future years, and the protection of electric power facilities and other projects. Investments to implement the governmental programs will comprise RUR64.2 billion. Investments to provide power from the NPPs, HPPs and TPPs will amount to RUR57.65 billion. To fulfill agreements with regional administrations (except for Moscow, St. Petersburg and Tyumen), the Company plans to spend RUR20.36 billion.

Federal Grid Company's 2013-2017 Investment Program, RUR billion

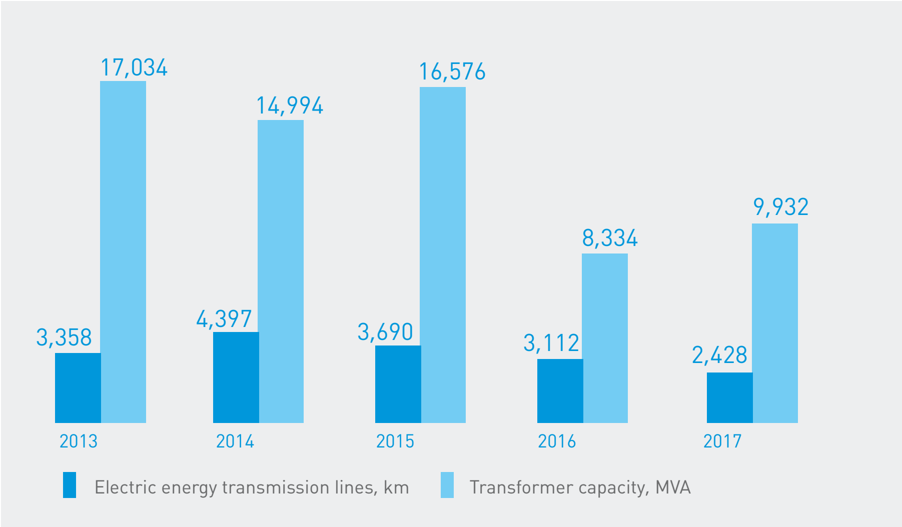


Federal Grid Company's 2013-2017 investment volumes and priorities (planned), RUR billion



Realization of the Company's 2013-2017 Investment Program will result in putting into operation 66,869.86 MVA of transformer capacity and 16,984.65 km of electric energy transmission lines.

Electric Grid Facilities to Be Put in Operation in 2013-2017



Key investment projects

Our Company is actively involved in the construction and reconstruction of energy infrastructure for major Russian projects, including: international forums and major sporting events, oil transportation projects, and development programs in Russian regions. We understand the importance of these projects and are doing our best to build and reconstruct grid facilities on time and in accordance with the highest standards.

Sochi-2014

The Kalininskaya NPP

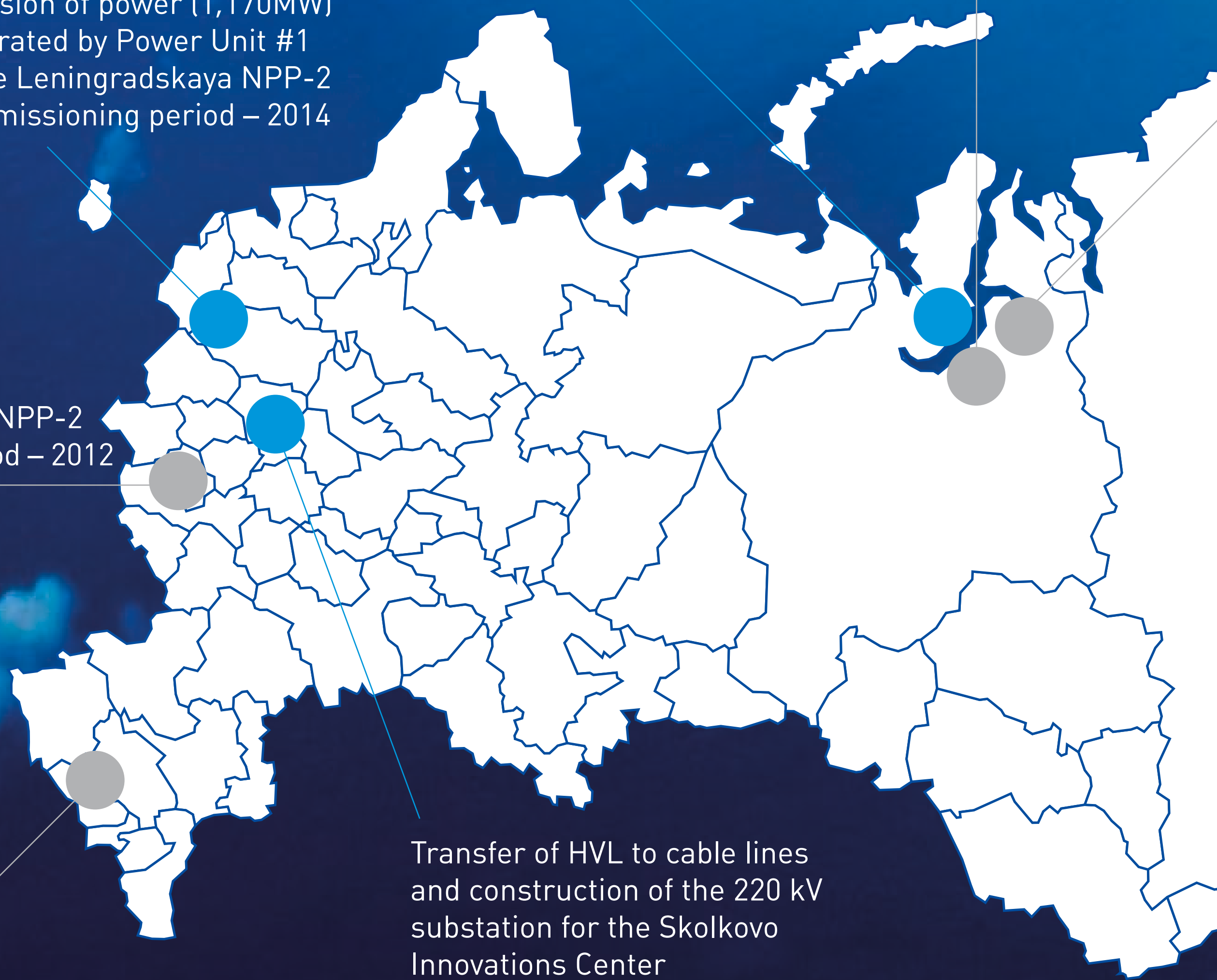
Power supply to the Skolkovo Innovations Center

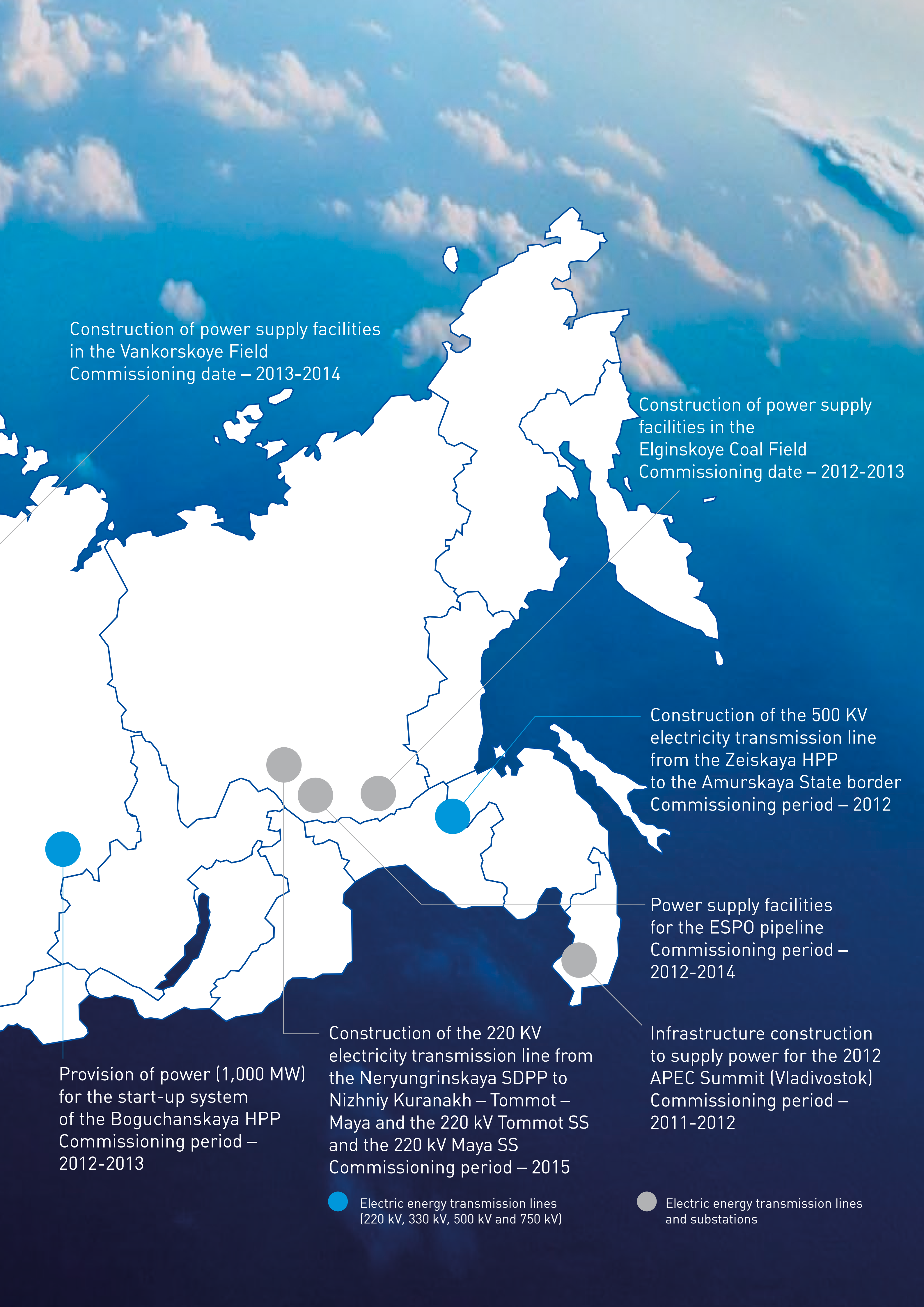
Power supply to the APEC Summit

The 330 kV Electric Energy Ring in St. Petersburg

The ESPO Pipeline

Federal Grid Company's Key Investment Projects Map




Construction of power supply facilities in the Vankorskoye Field Commissioning date – 2013-2014
Construction of power supply facilities in the Elginskoye Coal Field Commissioning date – 2012-2013
Construction of the 500 KV electricity transmission line from the Zeiskaya HPP to the Amurskaya State border Commissioning period – 2012
Power supply facilities for the ESPO pipeline Commissioning period – 2012-2014
Provision of power (1,000 MW) for the start-up system of the Boguchanskaya HPP Commissioning period – 2012-2013
Construction of the 220 KV electricity transmission line from the Neryungrinskaya SDPP to Nizhniy Kuranakh – Tommot – Maya and the 220 kV Tommot SS and the 220 kV Maya SS Commissioning period – 2015
Infrastructure construction to supply power for the 2012 APEC Summit (Vladivostok) Commissioning period – 2011-2012
Electric energy transmission lines (220 kV, 330 kV, 500 kV and 750 kV)
Electric energy transmission lines and substations

Sochi-2014

Construction of infrastructure for the 2014 Sochi Winter Olympics is one of Russia's most important investment projects. Not only does our country's prestige during the Winter Olympics, but also the further development of the region, as well as Russia's sports and tourism industries, depend on uninterrupted power supply to sports facilities. Work on this ambitious project began in 2009 and includes: the construction, modernization and re-construction of 33 backbone electric grid facilities in the Sochi Region.

We are working quickly to meet the highest international standards and relevant deadlines. Work progress is controlled by the International Olympic Committee Commission. By the end of 2012, we had provided power supply to eight Olympic facilities, including: the Ledovy Sports Palace for figure skating and short-track speed skating, the Krytiy Skating Center, the bobsled track at Krasnaya Polyana, and a five-star hotel to accommodate representatives of the International Olympic Committee.

During the reporting year, as part of this project, we completed construction of two substations, the 110 kV Izumrudnaya substation with the 110 kV Psou – Izumrudnaya cable- overhead transmission line, which is 12.5 km in length, and the 110 kV Vremennaya substation with the 110 kV Ledovy Dvorets – Vremennaya cable transmission line with a length of 2.5 km. The total capacity of this power supply facility is 120 MVA.

In addition, we have put into operation the 110 kV 160 MVA Veseloye substation. In 2012, we also began construction of power facilities for the Olympics, including: the 220 kV Chernomorskiy distribution center and the new 500 kV Vardane substation, as well as the 220 kV overhead transmission lines to transmit power from the Dzhubginskaya TPP and 110 KV cable power lines that are 8.3 km long. They will connect the 110 kV Ledovy Dvorets, Imeretinskaya and Veseloye substations with the power generation facility of the Adlerskaya TPP.

33

FACILITIES TO BE RECONSTRUCTED, MODERNIZED OR BUILT

The Kalininskaya NPP

The Kalininskaya NPP is a major energy producer in the central part of Russia. The Russian economy needs new power generating facilities. The Company's responsibility here is to provide for the transmission of electric energy from new power units. In 2012, our Company commissioned all facilities for power provision from the Kalininskaya NPP. This greatly increases the reliability of the power supply not only to consumers from western areas near Moscow and the Moscow Region, but to those throughout Central Russia. One of the key facilities is the Gribovo substation, which is the largest one in Europe. Here we have used the most advanced domestic and foreign developments, which in the near future will allow us to integrate this facility into the unified smart grid system. Technical solutions introduced at the substation will be applied across the country.

Power supply to the Skolkovo Innovations Center

Switchgears for the secondary distribution systems in the Skolkovo substation

Gas insulated transformer in the Skolkovo substation

The Skolkovo substation

The Skolkovo Innovations Center, which is under construction, is designed to create favorable conditions for the modernization of the Russian economy. Leading scientists, designers, engineers and business people together with participants from educational projects will be working to integrate new technologies into the Russian economy and to create world-class competitive developments in five areas: energy efficiency and savings, nuclear technology, space technology and telecommunications, biomedical technology, and strategic computer technologies and software. Our Company is working on providing power supply to the Center. In particular, we are constructing and re-constructing nine electric grid facilities.

The power supply project of the Skolkovo Innovations Center is unique in its complexity and technological density. In developing the project, it was decided to use technologies that would make it possible to compactly and safely fit power facilities into almost any area which is dense with residential or industrial buildings. The Company has decided to build underground substations and lay underground cables lines made of cross-linked polyethylene.

In 2012, we completed the conversion of seven sections of overhead lines that go on the territory of IC "Skolkovo" with a total length of 256 km for the cable- overhead lines. Furthermore, we put into operation 235 km of the 110-500 kV cable transmission lines. The overhead lines in the area of IC "Skolkovo" have been cut-off and dismantled.

We are in the construction of two power supply centers of IC "Skolkovo": Skolkovo and Soyuz substations. Their total installed capacity will be 252 MVA. The substations will be equipped with the latest electrical equipment that has a high operational reliability and complies with modern environmental requirements. In particular, the 220/20 kV gas-insulated autotransformers that are specifically designed for underground urban substations, complete gas insulated switchgears, and new communication systems will be installed.

252

MVA
TOTAL INSTALLED CAPACITY OF THE SUBSTATIONS

Power supply to the APEC Summit

The Asia-Pacific Economic Cooperation Forum (APEC) is an international economic organization, which was created to develop integrated links between Pacific countries. It unites 21 countries. In September 2012, Russia hosted the latest APEC Summit in Vladivostok. Preparations for such a large-scale event took a lot of time and required considerable investment. As part of the sub-program "Developing Vladivostok as a center for international cooperation in the Asia-Pacific Region" and the Federal Target Program “Economic and Social Development of Far East and the Trans-Baikal for the Period till 2013”, the Company provided for the complete readiness of the electric grid complex for reliable power supply to the Summit and also for the high-quality and smooth operation of the electric grid during the international forum.

150

KM
TOTAL LENGTH OF TRANSMISSION LINES

We have built and put into operation eight backbone electrical grid facilities: the 220 kV Aeroport, the Russkaya, the Zeleniy Ugol, and the Patrokl substations, and overhead and cable transmission lines with a total length of 150 km. On Russkiy Island, the main site of the APEC Summit, we continue to work on a territorial cluster of the energy system with an active-adaptive network. Innovative technologies and modern equipment used for its development will be the basis for reliable power supply for the entire infrastructure of the Far Eastern Federal University and for residents of the island portion of Vladivostok.

The 330 kV Electric Energy Ring in St. Petersburg

Another project of national importance that we have been working on since 2007 is the construction of the 330 kV electric energy ring in St. Petersburg. Historically, the energy system of the Northern Capital has developed radially. Today's technology makes it possible to construct a new cable-overhead direct current line which will connect the southern and northern parts of the city across the Gulf, thus creating an electric energy ring. Using a ring circuit allows a two-way feed to each of the electrical grid facilities of the ring, which will upgrade the reliability of the city's power supply, minimizing the probability of major emergencies and phased blackouts.

In early 2012, we completed re-construction of the 220 kV Vostochnaya – Volkhov-Severrnaya double-circuit transmission line, which is 16.32 km long with a voltage of 330 kV. Now, the comprehensive re-construction of two substations: the 220 KV Zavod Ilyich substation with subsequent switching to the 330 kV class and the 330 kV Vostochnaya substation, which are being completed.

5

SUBSTATIONS TO BE PART OF THE ELECTRIC ENERGY RING IN ST. PETERSBURG

In the electrical energy ring in St. Petersburg, there will be five 330 kV substations: the Vostochnaya, the Volkhov-Severnaya, the Zavod Ilyich, the Vasileostrovskaya and the Severnaya substations. In addition, two overhead transmission lines (the 330kV Vostochnaya-Volkhov-Severnaya and the 330kV Severnaya–Vostochnaya) and three cable transmission lines (the 330 kV Volkhov-Severnaya – Zavod Ilyich, the 330 kV Zavod Ilyich- Vasileostrovskaya and the 330 kV Vasileostrovskaya-Severnaya) will be part of the ring.

The ESPO Pipeline

The East Siberian – Pacific Ocean (ESPO) pipeline system is the pipeline that connects oil fields in Western and Eastern Siberia with the Pacific port of Kozmino in Nakhodka Bay. It aims to provide a port for Russian oil to reach markets of the Asia-Pacific Region. The Russian State-owned company Transneft is the ESPO's operator.

Our Company is constructing and re-constructing the backbone power facilities to connect to the electrical grids the ESPO pipeline facilities on the territory of the Republic of Sakha (Yakutia), the Jewish Autonomous and Amur Regions, and the Khabarovsk and Primorsky Territories.

During the reporting year, we have energized six 220 KV transmission lines and four 220 KV substations in the Primorsky and Khabarovsk Territories for the external power supply to the second stage facilities of the pipeline "Eastern Siberia - Pacific Ocean" (ESPO-2) - pump stations 36, 38, 40 and 41. In addition, we have provided external power supply to the oil pumping station (OPS) -24 by building a new 220 kV substation with a transformer capacity of 50 MVA.

Telecommunications and IT System Development

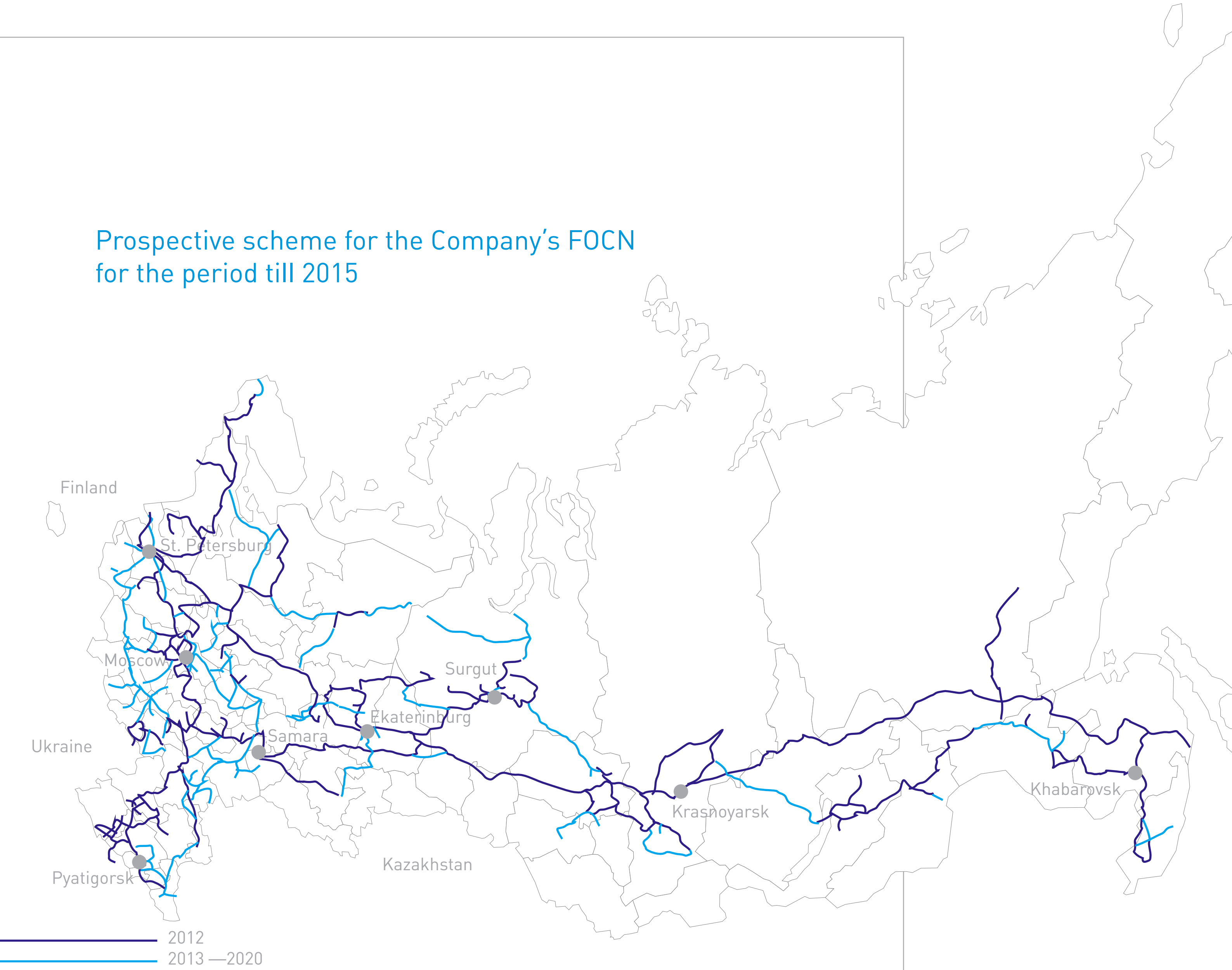
The UNEG development, the building of a smart grid and the effective management of the Company's business is based on utilizing advanced and modern telecommunications and information technologies. Our Company operates the Energy System's Unified Process Communications Network (hereinafter - ESUPCN), which is designed to provide process control in the production, transmission and distribution of electricity, maintenance control and electric power operations.

The main direction of ESUPCN development is digitalizing the network and making it smart, which will enable existing services to be administered and new services to be created via standardized tools. This is achieved through the construction of fiber-optic communication networks (FOCN), deploying satellite communication systems, mobile digital radio communication systems and the widespread introduction in electrical grid facilities of communication systems and modern switchgear equipment, promising technologies, and next generation multi-service networks.

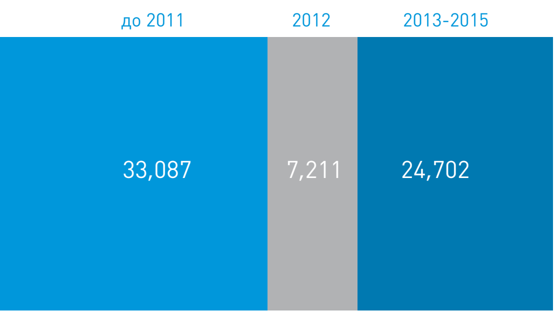
Fiber-optics Communication Network (FOCN)

The fiber-optics communication network (FOCN) is the basic energy system's communication network, which is built using a fiber-optic cable suspended on overhead electric energy transmission lines. Apart from the construction of the new FOCN, we are working on the implementation of large-scale resources provided for by major communication operators and rendered on the basis of long-term ongoing lease agreements.

Prospective scheme for the Company's FOCN for the period till 2015



Completion and projected volume of FOSN construction, km



In 2012, we completed construction of the FOCN in the following areas of electric energy transmission:

— The Pyatigorsk – Mineralnye Body – Nalchik – Vladikavkaz (670 km);

— The Lipetsk – Voronezh – Belgorod (750 km);

— The Krasnoyarsk – Khabarovsk in the territory in which the MES East operates (750 km).

29.06.2012

Our Company completed construction of the fiber-optic telecommunications line the Lipetsk-Voronezh-Belgorod with a 750 km length. The new line will allow for the more efficient management of electric grid facilities, and increased reliability of electric energy supply in this region.

Satellite Communications Network

To upgrade the reliability and visibility of electric grid facilities, the Company is building a satellite communications network based on VSAT-technology.

In 2013, the Company plans to complete equipping substations with satellite communication installations. While the FOCN-based communication network is formed, the satellite communications network will be used as a backup network. The switch-over of satellite channels to the mode of operating availability will significantly reduce communication costs.

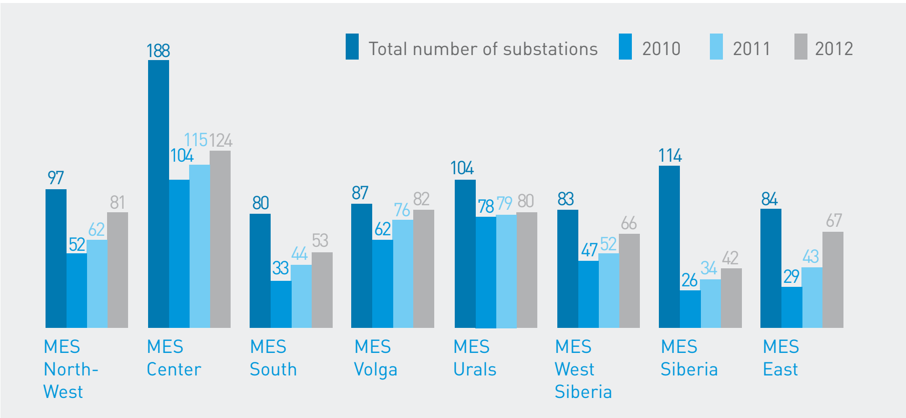
High Frequency Communication Lines

High frequency communication lines are the electric system's technological communication network that transmits through its channels voice, tele-mechanics data, and the Automated System for Commercial Metering of Electric Energy, as well as relay protection and emergency control commands needed for process control in the power industry (under both normal and emergency conditions). It is a specific type of wire channel, where phase wires and cables of overhead transmission lines are used as a signal-carrying medium. In 2012, as part of the new construction and re-construction of electrical grid facilities, the Company upgraded high frequency communication systems and put obsolete equipment out of service due to commissioning the FOCNs.

The Telephone Communications Network

Built on the hub network basis, the power industry's telephone communications network provides for interactions with the process network of the System Operator and other electricity market participants. The development strategy of the telephone network provides for VoIP technology, along with traditional services.

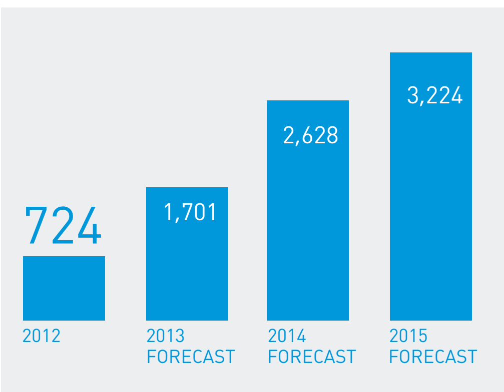
Equipping UNEG substations with digital switching equipment for telephone communication systems



Systems Based on the Global Navigation Satellite System (GLONASS) Technology

Used in corporate branches, the transportation monitoring system based on GLONASS/GPS technology is intended to obtain real time information on the location of transportation vehicles to control the fulfillment of assignments, as well as to monitor mileage and fuel consumption. The implemented transportation monitoring systems are integrated with geographic information systems and an automated transportation operation accounting system. The number of corporate transportation vehicles equipped with GLONASS is growing. During the reporting year, 724 vehicles were equipped with this system, and in 2013, we plan to increase the number of transportation vehicles equipped with GLONASS equipment by more than 100%.

The Company plans to increase the number of transportation vehicles equipped with GLONASS



Automated Process Control System

The Automated Process Control System (APCS) is a unified distributed hierarchical system which allows both operational and non-operational functions to be performed by Electric Grid Control Centers, improves UEG mode control efficiency due to the high level of visibility, prevents outages and reduces the time for decision-making and the probability of erroneous actions by operational staff in emergency conditions.

As the UNEG functional control system, the APCS integrates means and sub-systems of existing independently developing automatic and automated control systems (the Automated System of Technological Process Management, the Data Acquisition and Transmission System, the Automated System for Dispatch and Engineering Control, the Relay Protection and Automatics, the Automated Information and Measurement System for Commercial Metering of Electrical Energy), providing a sufficient interface for control systems of the System Operator, the Distribution Electric Grid Companies.

As the UNEG operational and development control system, the APCS integrates automation equipment and systems for dispatch & processing and production & technical activities of Federal Grid Company and the MES and PMES services.

As part of the Sozdanie APCS project, the Company is working on implementing:

- The Automated Dispatch and Engineering Control System of Electric Grid Control Centers for (ADECS EGCC) PMES and MES. Within this framework, during the reporting year, we put into operation the Software and Hardware Complex of the Automated Dispatch and Engineering Control System of Grid Control Centers for the Primorsky PMES to provide uninterrupted power supply to the APEC Summit;
- Programs to improve the reliability and visibility of the UNEG (at the facility level). In 2012, Company specialists implemented measures to upgrade the visibility of UNEG facilities at 41 substations.

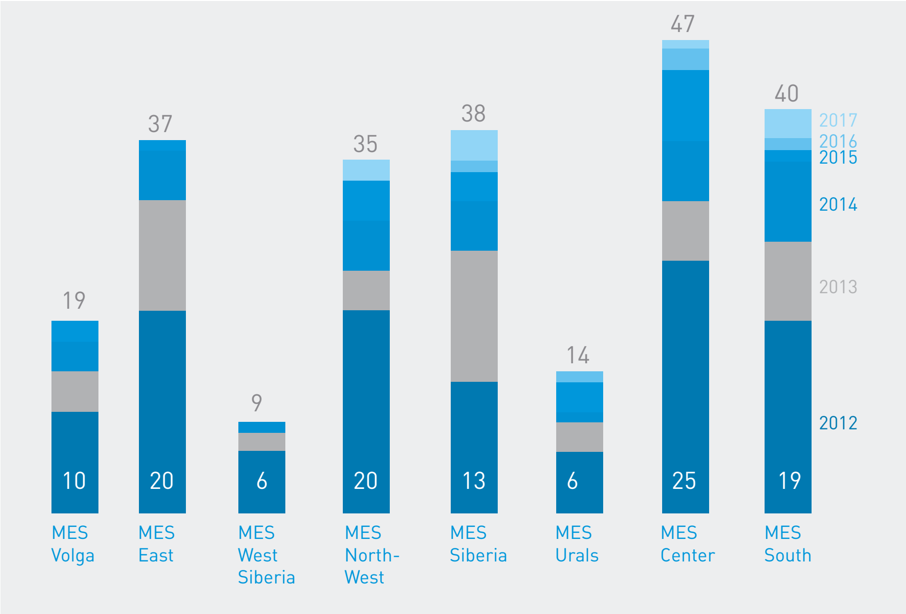
The Automated Process Control System (APCS) is a hardware and software system intended to collect, analyze, visualize, store and transfer process information and to automatically control the operation of substation equipment.

Currently, the Company is actively implementing the APCS systems based on the MEK 61859 protocol. Innovative projects involving the establishment of digital substations are under way. The system is equipped with an interface allowing personnel to control SS process operations implemented in line with interactions with the hardware and software complex.

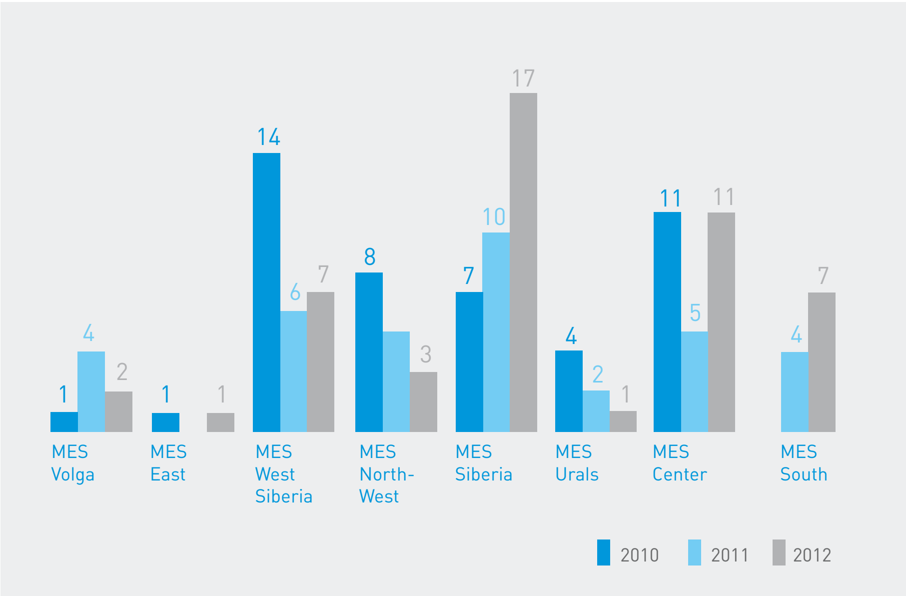
14.03.2012

Federal Grid Company completed installation of the Automated Information and Measurement System for the Commercial Metering of Electrical Energy (AIMS CMEE) at the 110 KV Vremennaya substation in the Sochi Region. It will be the main source of power supply for the Media Center of the 2014 Winter Olympics (Sochi). Implementation of the AIMS CMEE will enable the Company to receive full operational parameter data for the substation network and transmit it in real time via the satellite channel to the data acquisition and processing center of the MES South and to Federal Grid Company's Executive Office.

Putting into operation the APOC system



Commissioning data acquisition and transmission systems at the UNEG substations



Development of corporate and technological information systems

For the reporting period, we successfully fulfilled the following work and put into operation the following systems:

Within the framework of the Program for the automation of investment activities:

- The Automated project management system based on Oracle Primavera was implemented as a part of Automated system for investment activities management;
- The Automated system "Design and estimate documentation" was implemented;
- The project aimed at developing the Automated system "Formation of the investment program" was completed in respect to the functions of forming a quarterly financing plan on the approved investment program until 15 December of the year preceding the planned year. The Company also implemented the function of adjustments in the plan for the current quarter and the next quarters until the end of the year.

Within the framework of the Program for the automation of managing UNEG assets:

- The first stage of the project for creating a budgetary and regulatory base for transmission lines and the electric equipment of substations of the UNEG was implemented;
- The software providing for the formation and approval of repair and maintenance plans was developed and implemented;
- The Automated system for repair and maintenance records was modernized in respect to planning repair and maintenance actions made in-house, and the formation and analysis of the respective records.

Within the framework of the Program for the automation of corporate resources:

- The analytical personnel management system based on SAP HR and SAP BI was implemented;
- The automated system "Record keeping for counter-parties" was implemented.

Within the framework of the Program for the automation of operating management and grid monitoring:

— Replication of the Automated system of recordkeeping and analysis of disturbances for the Company's branches was completed.

Within the framework of the Program for the automation of asset management:

— The Automated system of contracts management was put into operation;

— The IFRS accounting and reporting system was put into operation.

Within the framework of the Program for IT/Infrastructure development:

— The basic models of the Corporate Information Management System were modernized. The Company switched to an upgraded version of SAP R/3.

Within the framework of the Program for the automation of interactions with customers and the market:

— To provide for the compliance of the Automated system of control and record-keeping for energy resources in substations with WECM's requirements, the Company received 435 Passports of compliance with Class C for the System and the Passport of compliance of the Automated system for control and record-keeping for energy resources in the UNEG with the same Class C.

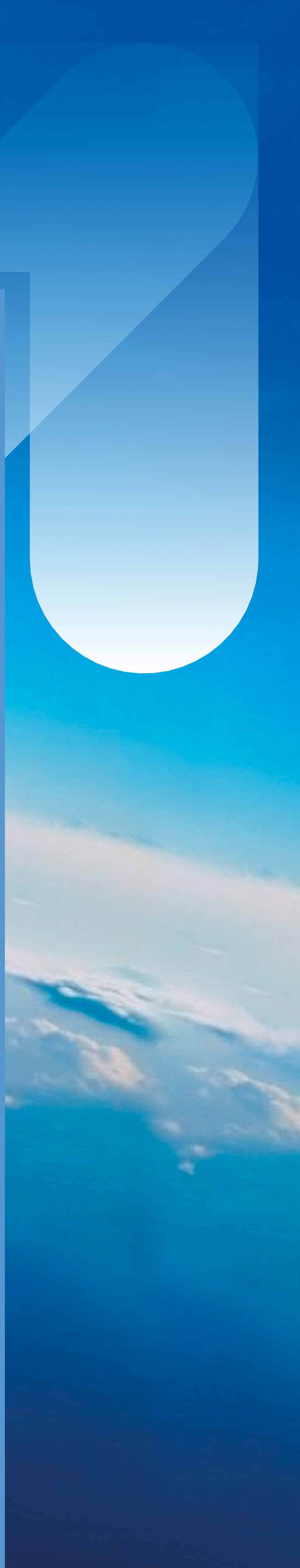
↓19.5%

DECREASE IN THE SPECIFIC ACCIDENT RATE IN 2012 (COMPARED WITH 2008)

↓14.3%

INJURY RATE REDUCTION

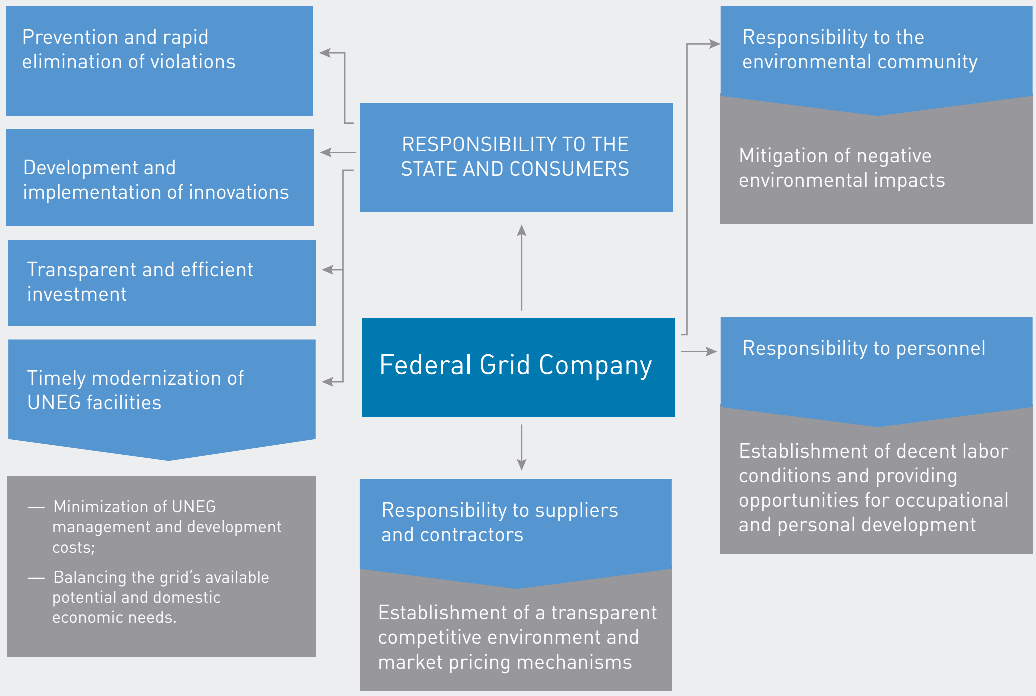
Social Responsibility and Sustainable Development



Federal Grid Company of Unified Energy System

General Sustainable Development Policy and Social Responsibility Principles

The Company's position on corporate social responsibility (CSR) issues is based on the awareness that the key aspect of the Company's CRS consists in providing for the reliable and uninterrupted supply of power to UNEG facilities. We have voluntary obligations before stakeholders, concerning the management of the Company's impact on the environment, the public and the economy. We strive to fulfill these obligations in cooperation with stakeholders. The Company's priorities in this respect include: sustainable development and implementation of the corporate strategy.



Since 2008, the Company has published annual reports on social responsibility and corporate sustainability, informing shareholders, investors, employees, partners, customers and local communities on the Company's strategy for corporate social responsibility, and disclosing the efficiency of socially-significant corporate projects and their influence on the social and economic situation in the regions in which the Company operates. The Company's social responsibility reports are prepared in accordance with disclosure standards for non-financial statements, and GRI (G3) Guidelines, the GRI's industry energy protocol, and AA 1000 SES standard. Annual Report preparation involves discussions with stakeholders pertaining to the key topic of the Report and the collection of disclosure requests. Prior to publication, the text of the Report is discussed publicly in the form of hearings held either in absentia or in person.

The Company's reports are registered in the National Registry for Corporate Non-Financial Reports, which is maintained by the Russian Union of Industrialists and Entrepreneurs (RUIE).

The Company's 2011 Social Responsibility and Sustainability Report won "The Best Corporate Social Responsibility and Sustainable Development Report" category at the XV Annual Federal Annual Reports Contest.

The full text of the social responsibility and corporate sustainability reports of Federal Grid Company are available on the Company's website at

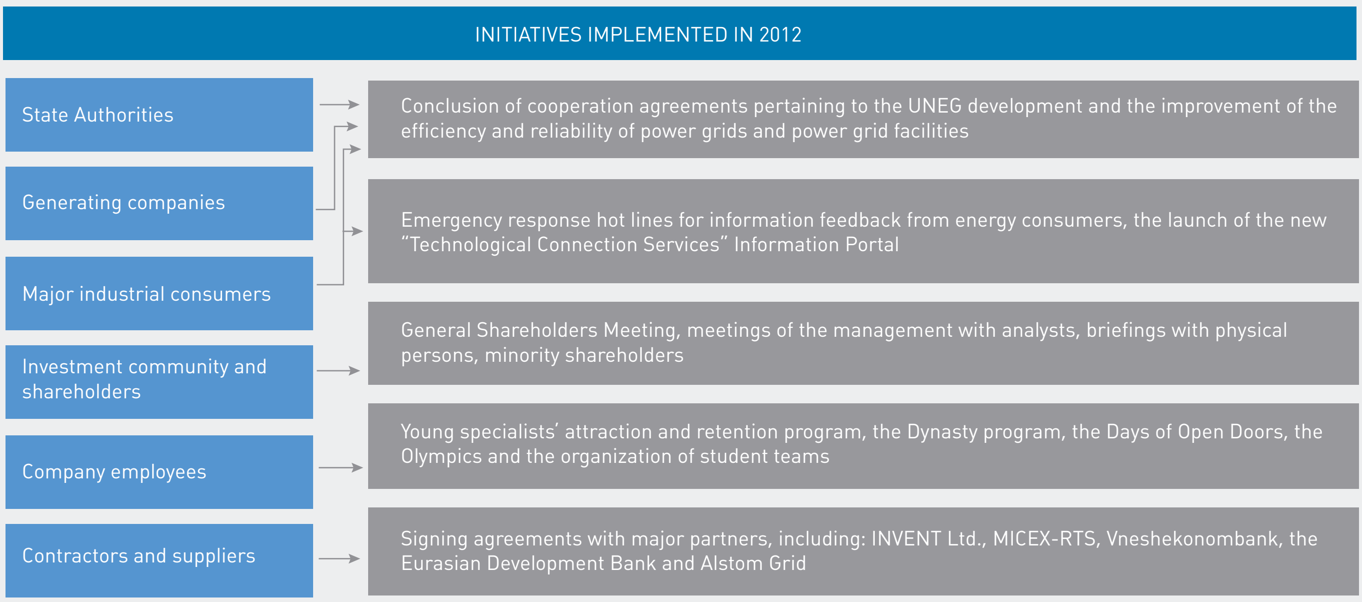
http://www.fsk-ees.ru/about/corporate_social_responsibility/

Stakeholder Relations

We are well aware of the importance of our business in a dynamically changing world, as well as of the impact that it has on the economy, the environment and social development, in general. As one of the leading energy companies, we consider stakeholder interactions to be a means to consolidate resources to resolve problems and to achieve common goals.

While interacting with stakeholders, we inform them about the Company's key activities, sharing our views on events and facts. Understanding and analyzing key stakeholders' expectations in regard to issues that are vital for the Company have formed the basis for upgrading corporate social responsibility processes.

The Company's interactions with stakeholders



HR Policy

The Company's HR Policy is an integrated system of HR management intended to ensure the Company's investment attractiveness and to balance the optimal use of the employees' performance results, the achievement of corporate strategic goals, and the provision of social benefits and guarantees in line with employees' needs and expectations. One of the priorities of the Company's HR Policy is rotating and retaining the quantitative and qualitative characteristics of personnel to ensure the reliable functioning and dynamic development of the power grid complex.

HR Policy goals

Efficient organizational planning

Comprehensive management of HR properties

Management of HR development

Management of the HR number

HR efficiency management

The Company's HR Policy elements

Organizational planning

Compensation and motivation system

HR development and training

HR reserve

Social support

Labor relations

Internal communications and corporate culture development

25,103

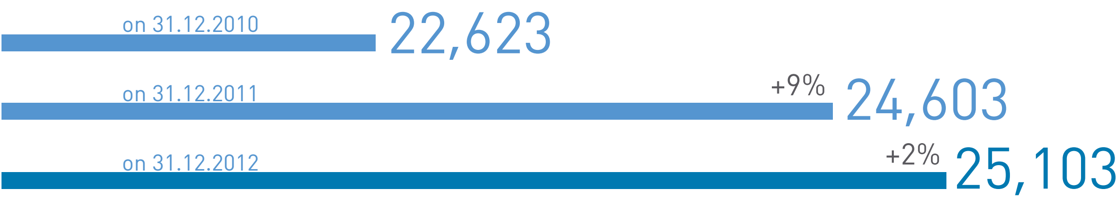
TOTAL NUMBER OF CORPORATE EMPLOYEES AS OF 31 DECEMBER 2012

The number and qualitative composition of personnel

The Company's total head count on 31 December 2012 was 25 103 employees. This figure represents a two percent increase in the total number of employees compared with the previous year, due to new job creation at corporate facilities (primarily to ensure the reliable operation of Olympic power facilities), and to implement the Company's investment program.

On the whole, the number of employees grew 11% during the 2010-2012 period. This can be attributed to commissioning and energizing new UNEG facilities.

Changes in the Company's head count over the three year period, employees



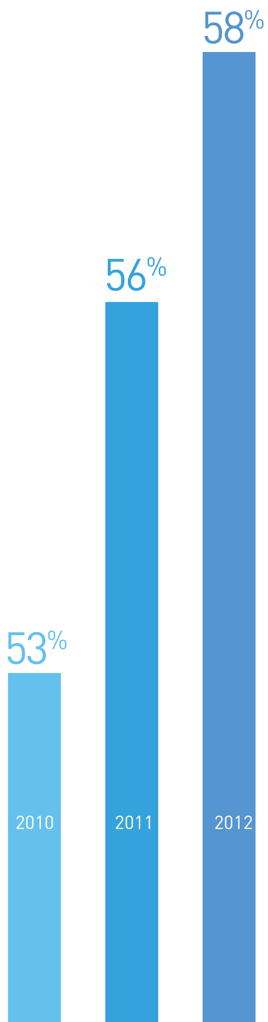
Personnel Structure by Category and Gender

Employee category	Total Employees	Of them: Men Employees	%	Women Employees	%
TOTAL NUMBER	**25,103**	**20,109**		**4,994**	
Management	3,902	3,404	17	498	10
Specialists/Employees	10,087	6,462	32	3,625	73
Laborers	11,114	10,243	51	871	17

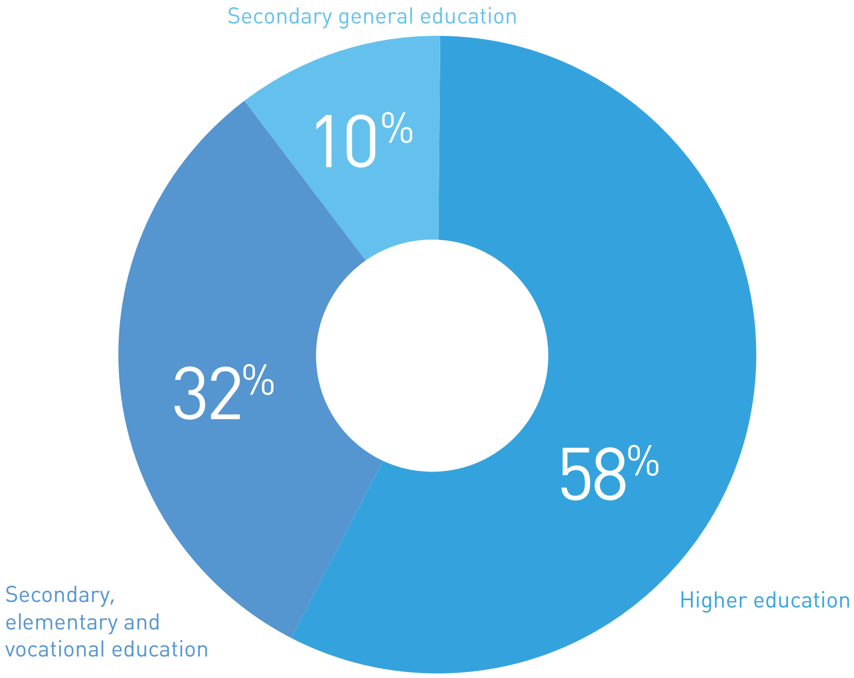
Personnel Structure by Education and Age

The Company sets strict requirements as to the education level and qualification of its employees and this pays off. For example, in 2012, the share of employees with higher education grew 2% (vis-à-vis 2011) and stood at 58%.

Changes in the share of employees with higher education



Employees' Education Level



During recent years, the Company's personnel structured broken down by age demonstrates a marked tendency towards a decrease in the number of middle-aged employees and a rejuvenation of manpower. During the 2010-2012 period, the average employee age fell from 39.8 to 38.8 years (as of 31 December 2012). The majority of the Company's employees (56%) are people in their prime, meaning younger than 40 years old. Therefore, the Company maintains balance, attracting young and motivated employees and retaining experienced and highly qualified personnel, ensuring the transfer of professional knowledge and skills across generations.

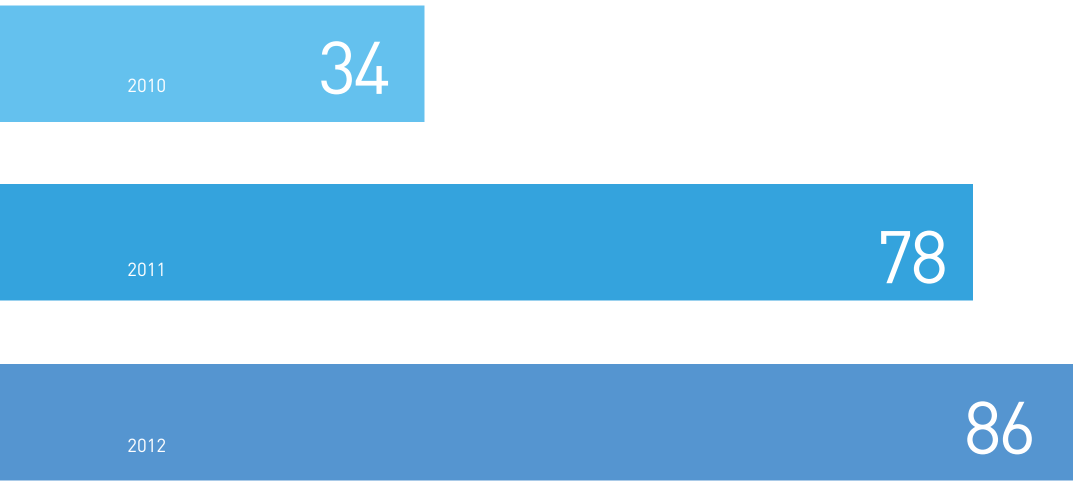
58%

SHARE OF EMPLOYEES WITH
A HIGHER EDUCATION

Personnel Dynamics

The Company pays significant attention to managing the number of employees, as this management is instrumental to resolving the problem of filling key occupational positions and attracting young specialists. The Company actively cooperates with higher education establishments and schools. We concluded cooperation agreements with 45 Russian specialized education institutions. In 2012, the Company's target scholarship program covered 86 students who will be offered job opportunities in different corporate divisions after graduation.

Number of participants in scholarship programs



The Company's staffing level is rather high, standing at 97% of its target strength as of 31 December 2012. From 2008 to 2012, the personnel flow index fell 1.5%, to 6%.

Monetary Incentives

The Company's labor compensation system takes into account the position category, the performance results of the Company's subsidiaries and divisions, and peculiarities of the regional labor markets, as well as the individual contributions of each employee. Furthermore, we have conducted a survey of compensation received by employees occupying key positions in competing companies, to prove that the compensation paid by the Company corresponds to the middle segment of the labor market. To maintain and increase monetary incentives, the Company's subsidiaries perform an annual indexation of compensation (tariff rates) for employees, increasing compensation by the value of the actual growth in the consumer price index in the Russian Federation, which forms the basis for a stable increase in labor compensation.

Employee income structure

Fixed share

60%

Position salary/rate/tariff (37%)

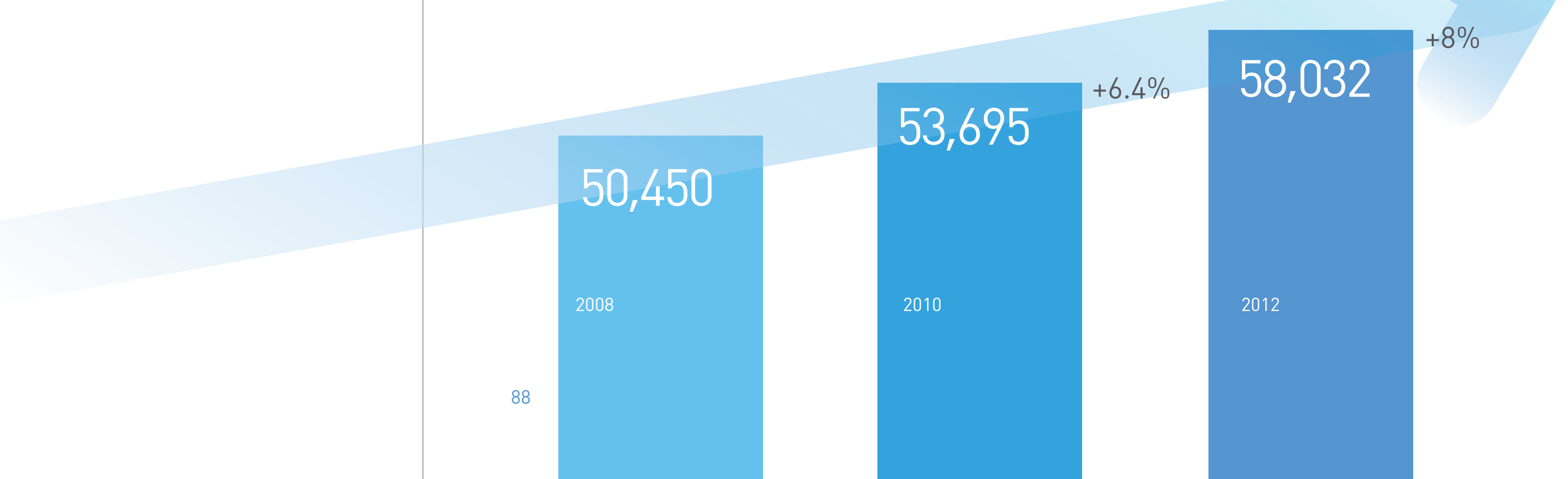
Increments to earnings
— Working conditions
— Duty schedule
— Length of service
— Other

Variable share

40%

Bonuses
— Monthly bonuses
— Quarterly bonuses
— Annual bonuses
— Non-recurrent bonuses

Changes in the average salary of the Company's employees, RUR



58,032

RUBLES – AVERAGE (MONTHLY) SALARY FOR THE COMPANY'S EMPLOYEES

Employment benefits are another tool that the Company utilizes to improve employee 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

Forming an HR Reserve and Personnel Assessment

The Company's concept of production and the technical HR reserve formation (which was developed in 2011) enabled the Company to comprehensively deal with the personnel reserve, forming a model of competencies used to determine the knowledge level, and managerial experience and skills of candidates for the reserve. This was complemented by developing the mentorship system.

During 2011-2012, personnel assessment initiatives for reserve candidates were implemented in all branches of the Company, while mentor training programs were implemented in the MES Center, MES North-West, and MES Volga. The total number of reserve candidates was 1 497 employees, with 478 of them enrolled in the tactical reserve and 143 employees participating in the mentor training program.

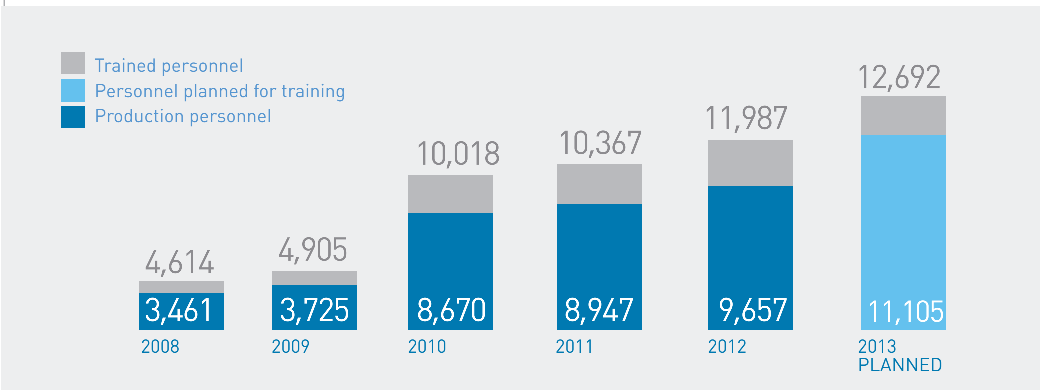
During the reporting year, the Company developed guidelines to assess the competencies of the Company's branch management, looking for candidates for the PMES facility director. The assessment covered 29 employees from the Company's HR reserve and 38 actual PMES directors. All assessment participants and PMES directors received feedback based on assessment results.

Personnel Training and Development

11,987

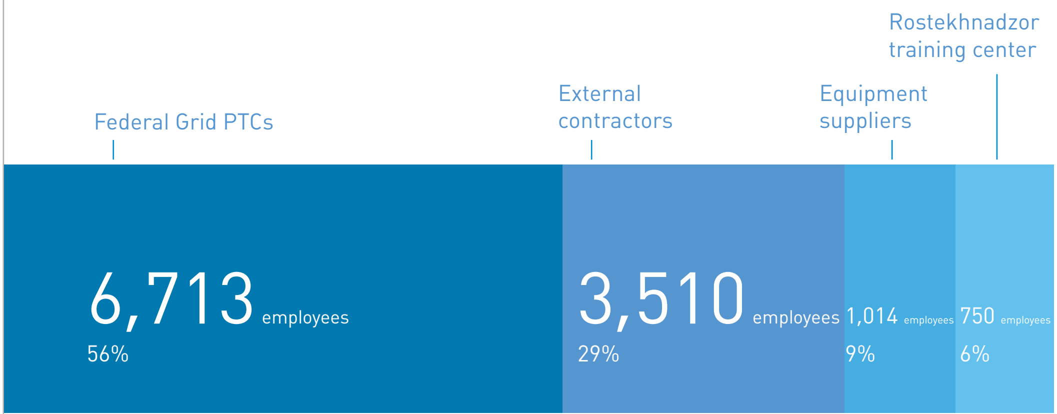
EMPLOYEES PARTICIPATING IN EDUCATIONAL PROGRAMS IN 2012

Personnel training, employees



Corporate personnel's strong professionalism is a key factor driving reliable UNEG operation.

In 2012, 11,987 employees took part in educational programs, including 9,657 operational employees. 6,713 employees took courses in the Company's own Personnel Training Centers (PTCs).



In all regions where Federal Grid Company operates, we have created a network of education centers. It allows us to successfully resolve the problem of forming an integrated educational space for our personnel and to increase the standards and enhance the quality of training.

All PTCs are equipped with training simulators developed for each branch, which imitate the dispatcher's operating and information complex. In 2013, we will complete construction of electric grid training areas with initial substation equipment, fragments of transmission lines (transformers, switches, disconnecting devices, and supports) and micro-processor panels of RP and EA.

In the reporting year, together with the Center of National Film, a film studio, we completed production of a series of educational films dedicated to the most topical activities of the Company. The educational films allow us to standardize training, to improve quality. Moreover, they let us hold distance education and self-education.

In 2012, in line with our cooperation with Moscow Management School "Skolkovo", we implemented the following programs:

— Youth round tables held as a part of the St. Petersburg International Economic Forum – 2012 and the Baikal Economic Forum;
— Joint educational program "Integration of Federal Grid Company's and IDGC Holding's innovative development programs;
— Integrated program "Federal Grid Company's Strategic Personnel Reserve".

In 2012, we continued the personnel training project called Knowledge Days launched in April 2011. The project is aimed at comprehensively improving ongoing skills for corporate employees and our employees' professional mobility, as well as on enhancing new employees' ability to settle into the Company and creating a knowledge management system. 10,011 employees of the Company took part in the projects' events; in 2013, IDGC Holding's personnel joined the project.

As a part of the system of forming the integrated system of personnel training of Federal Grid Company and IDGC Holding, we undertook the following measures in 2012:

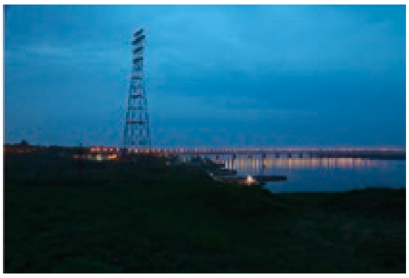
— Joint training within the framework of the Knowledge Days project, which is dedicated to reviewing and analyzing technological disturbances that have occurred due to personnel's incorrect actions;
— Joint emergency protection training, which involved the personnel of Federal Grid Company's PTC, operating and repair employees of MES Volga, MES Ural and IDGC Holding;
— Joint training related to fire protection, labor protection, preventing disturbances in the operations of transmission lines, and enhancing procurement activities, media relations and interactions with personnel.

Strengthening Corporate Culture

The Company's corporate culture joins employees together as a united team, providing motivation for fruitful work, mobilizing their initiatives and facilitating communication. The Company has an established range of values which are essential for members of the corporate team, who are engaged in the major and complex business of supplying electric power to all Russian regions.

In 2012, which marks the Company's 10th anniversary, significant attention has been paid to corporate culture development.

The Company has published the "Federal Grid Company. Ten Years" photo album, which contains works of the best Russian photographers. It was an initiative realized jointly with the Moscow Photography House. A jubilee exhibition and the presentation of the album took place 27 June 2012 in the Moscow Photography House. On the eve of the Power Engineers' Day in December 2012, photographs from the album were exhibited in the Russian Parliament.



The "Dynasty" program launched by the Company in 2010 to foster labor traditions serves to familiarize children of employees with production facilities, and to organize drawing contests such as "Unified Grid – Unified Country", a contest which has been organized for the children of Company employees, as well as for those of employees of JSC IDGC Holding. The program also helps to organize New Year's festivities for children of Company employees.

The Company promotes healthy lifestyles, supporting sports and physical activities. In 2012, Company employees participated in Winter and Summer Olympics organized by Federal Grid Company. In October 2012, a second Chess Tournament (in memory of Mikhail Botvinnik) was held. The Tournament, attended by power industry professionals, was organized by the Company and JSC R&D Center of Federal Grid Company. Tournament participants included 26 teams representing Federal Grid Company and other grid companies.

21.04.2012

On 21 April 2012, to celebrate the upcoming Victory Day, more than 1500 employees of the Company's administration, MES Center and the Company's subsidiary and dependent companies (SDCs), including corporate veterans came out to clean up the territory of the Hill of Respectful Salutation Moscow Memorial and to lay the foundation for the Alley of Power Engineers. After finishing work, a ceremony took place to honor the veterans and place a floral tribute at the Eternal Light. The Company hosted traditional celebrations for veterans dedicated to memorable dates (Victory Day, the Power Engineers' Day). Cultural programs for these veterans included visits to Moscow's best theaters and museums.

Non-governmental Pension Programs

A non-governmental pension program for corporate employees was approved in 2004, to attract and retain the best industry professionals and to provide social support to employees, even after retirement.

Employees eligible for the NGPP

↓

Full-time Company employees with at least 10 years of uninterrupted service prior to the date that the labor pension right is acquired

A personal account for an employee is opened with the Fund on the following dates:

↓

- The date that the labor pension right is acquired in compliance with the law (60 years for men and 55 years for women), or at an earlier date (subject to beneficial conditions)
- The date a labor pension due to disability is acquired

The number of employees who received non-governmental pensions funded by Federal Grid Company during the Program's lifecycle was 3 628. In 2012, the Company transferred RUR320,735,413 to the Non-governmental Pension Fund of the Power Industry.

320735413

RUBLES TRANSFERRED TO THE NON-GOVERNMENTAL PENSION FUND OF THE POWER INDUSTRY IN 2012

The Housing Program

Last year, the Company launched a long-term corporate assistance program to upgrade employees' housing conditions. The program helps employees either to rent housing that can be used while the employee works at the Company, or to purchase an apartment of their own.

In 2011-2012, the Program helped 708 Company employees, including 282 young specialists, purchase various housing options of their own.

During the reporting year, the Company began to develop its own housing stock. The Company provided 275 apartments in the Sochi Region for employees who are working to ensure the reliability of power facilities at the Sochi 2014 Olympics.

In addition, the Company compensates its employees the cost of housing for one year. Young specialists are eligible for this benefit for a period of up to three years. In the reporting year, the number of employees renting various accommodations with corporate support was 653.

708

COMPANY EMPLOYEES PURCHASED VARIOUS HOUSING OPTIONS IN 2011-2012 WITHIN THE FRAMEWORK OF THE CORPORATE HOUSING PROGRAM

2,124

COMPANY EMPLOYEES WERE AWARDED WITH "TEN YEARS OF FEDERAL GRID COMPANY" ANNIVERSARY BADGES

The Awards Policy

Company employees are entitled to awards if they are distinguished in: their services to the State, the fuel and power industry and the Company, as well as if they demonstrate high production and management efficiency, achieving best practice results in the operation, construction and re-construction of power grid facilities.

The number of Company employees who received awards during the reporting year was 4,585,

including 171 employees who were awarded by the Russian Ministry of Energy for their services to the industry. Sixty-eight employees were recognized by the All-Russian Association of Employers of the Power Industry. Other honors, including honorary titles and badges, were granted to 141 employees.

Recipients of the Diploma of Merit totaled 625 employees, with another 583 employees receiving letters of honor. In addition, 2,124 Company employees were awarded with "Ten Years of Federal Grid Company" jubilee badges in 2012, to commemorate the tenth year of the Company's establishment.

The Company's Impact On Russian Regional Development

Federal Grid operates in 75 Russian regions. We are aware of the Company's significant role in resolving problems (both economic and social) that are essential for the regions. Thus, we make every effort to enhance our contribution to the regions' economies, to establish new and to maintain existing employment opportunities, to heighten the education level of people living in the regions and to participate in environmental protection activities.

Social Aspect – Educational Programs

Power engineering is a responsible business and the industry needs highly qualified young specialists. We do everything in our power to train industry professionals in all regions in which the Company operates.

Educational initiatives implemented in 2012 included the following:

— The traditional annual Day of Federal Grid Company was attended by some 1700 students from regional higher education institutions. Topics discussed with students by Company specialists included: production, corporate culture, and Company-specific operations. The specialists also answered different questions that attendees were interested in;

— From April to June 2012, the Company hosted a second contest for students and post-graduates from industry higher education institutions to find the best research paper on main power transmission lines. The winners were awarded at the Youth Round Table (which the Company organized in Saint Petersburg);

— On 18 April 2012, the Company organized an All-Russian Conference entitled "New Generation for the New Power Industry". The Conference was attended by 300 managers of higher and secondary occupational education institutions from across Russia. The Conference agenda was dedicated to the need to comprehensively modify existing relationships between institutions engaged in educating specialists, and production facilities that are busy with large-scale technical renovation;

— In 2012, the Company organized excursions to its production facilities for more than 760 students. Nine teachers from higher education institutions underwent production training at the Company's facilities;

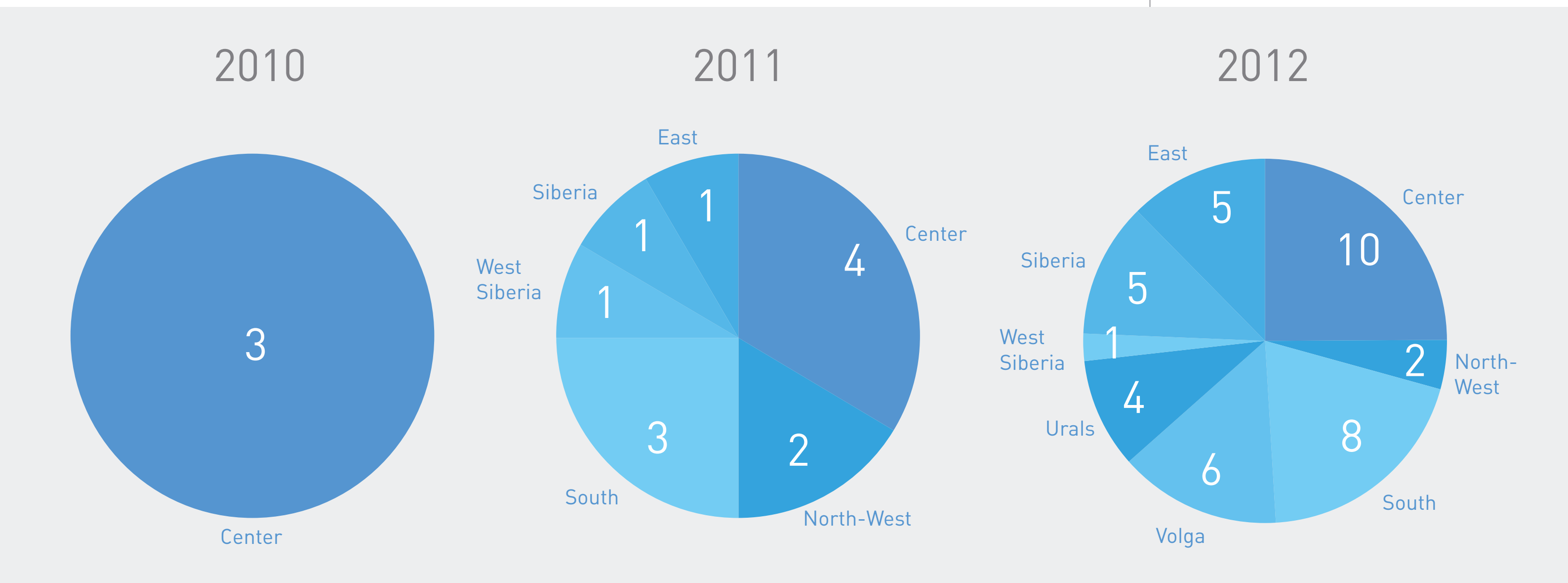
— On 20 June 2012, a ceremonial opening of the Center for the Advanced Training and Re-training of Power Grid Complex Specialists was held. The Center was organized on the basis of the Saint Petersburg State Polytechnic University, which was equipped and re-constructed with support from the Company;

— The Company provided charitable assistance to the North Caucasus Federal University to upgrade equipment in the electro-technical laboratory. Similar assistance was provided to the Oil Technical University in Grozny, where the Company has funded the purchase of equipment for the Department of Secondary Occupational Education, namely for classrooms and laboratories that provide education on electric power plants, grids and systems and relay protection and the automation of energy systems, as well as on power supply.

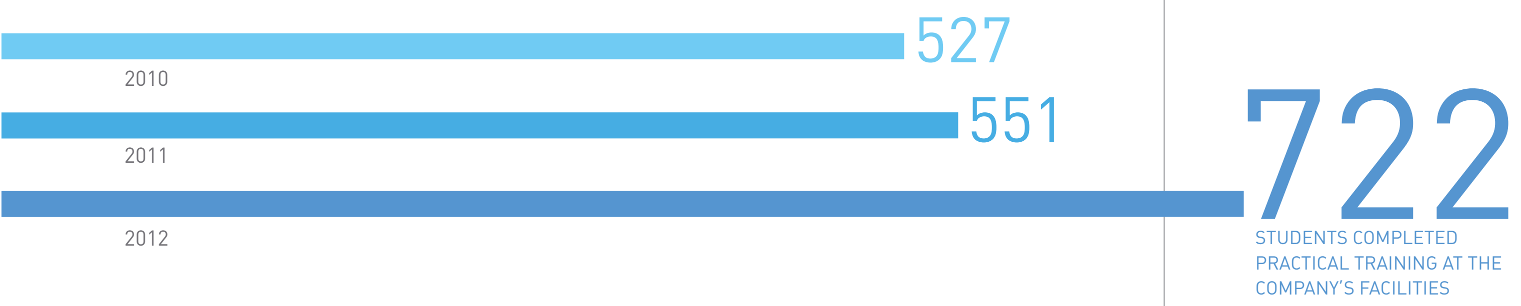
The Company continues to employ the best students from industry education institutions and makes every effort to retain promising young specialists in the Company.

During the reporting year, the Company also moved forward with developing the tradition of having student construction teams work at Company facilities. In July-August 2012, employment was provided for 745 students (twice as many as compared with 2011) from 28 higher and 3 secondary education institutions. They worked at 41 Company facilities under construction. In three years, the geography of facilities using student labor has widened considerably:

Territorial Distribution of the Company's Facilities Using the Services of Student Construction Teams



The number of students completing practical training at the Company's facilities grows year-on-year. In 2012, this number stood at more than 720 students.



Social Aspect – Charity Projects

3700000

The amount spent by the Company to provide aid to physical persons in 2012 comprised RUR3.7 million.

138355000

The amount spent on aid projects to organizations during the reporting year stood at RUR138.355 million.

2413

Twenty employees of the Kuban MTPL 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 RUR24.138 million. Furthermore, Company employees collected RUR5.2 million to aid the people of Krymsk.

Social Aspect – Import Substitution

Localizing the manufacturing of electro-technical equipment on Russian territory will contribute to the domestic economy, thus improving the country's social situation.

The Company cooperates with leading construction, engineering and other contractor organizations, including: suppliers of highly efficient electro-technical equipment from across the country. The Company signed cooperation agreements with 72 domestic equipment manufacturers. The total number of employees working in these organizations amounts to more than 160 thousand. We are sure that our collaboration will contribute to preserving these jobs, as well as to stimulating the establishment of new job opportunities. According to our estimates, import substitution initiatives will contribute to establishing more than 3000 new jobs in the 2012-2014 period.

800

Social Aspect – Production Safety

↓14.3%

INJURY RATE REDUCTION

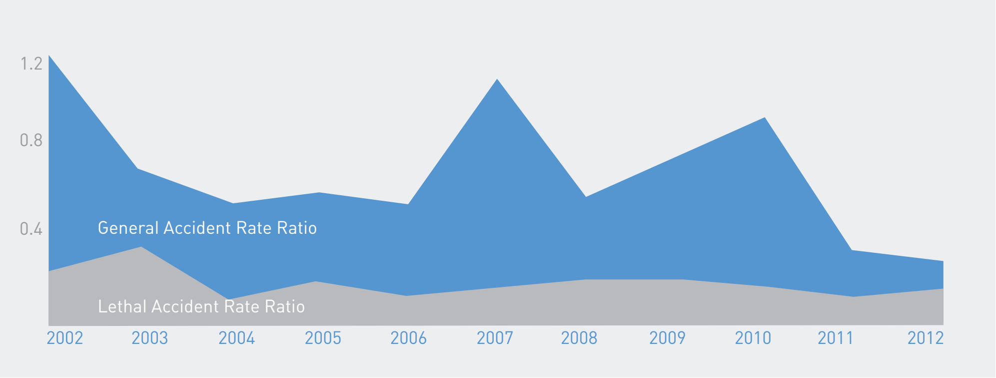
Labor Safety

The Company's labor safety policy is intended to prevent production accidents and occupational deaths, as well as to provide for the safe behavior of employees engaged in production, to develop accident prevention skills and to ensure improved labor conditions on an ongoing basis.

Based on the analysis of previous performance, we have adjusted labor safety management during the reporting year. In 2012, each PMES implemented procedures to decrease the employee accident rate based on the assessment of safety risks at its facilities, and in compliance with a set of goals formulated by resolutions of the Labor Safety Committee and by the organizational and administrative documents of Federal Grid Company.

In 2012, the number of accidents fell 14.3% (from 7 to 6 accidents), with the number of injured employees falling 12.5% (from 8 to 7 employees), whereas the number of lethal accidents grew 33% (from 3 to 4 employees). It was the first year in the Company's ten year history when the accident rate fell (to its minimum).

General and Lethal Accident Rates at the Company's Facilities



To improve production safety, the Company implements labor safety procedures prior to the start of the repair campaign, assessing employee safety risks and developing corrective actions. The Company also creates instructional films that reflect safe methods of work and controls and analyzes the safe performance of work by repair teams.

In addition, labor safety initiatives implemented during the reporting year have included the following:

- A project on the use of mobile video recorders to register the most dangerous actions of personnel working at the power plants;
- A changed focus of Labor Protection Days to increase efficiency and prevent disturbances which can lead to accidents;
- Organizing the operation of 50 stationary and 17 mobile safety instruction units to promote safe labor conditions and to train personnel on safe methods of work, based on up-to-date requirements;
- Further operation of 13 psychological rehabilitation units intended for operating personnel at substations;
- Developing standardized requirements for the certification of workplaces in regard to work conditions and the summing up process, followed by granting benefits and compensation to employees;
- Further continuation of the "A PMES Best in Labor Safety" and of the "A MES Best in Labor Safety" contests.

Industrial Safety

In 2012, the Company operated 342 Hazardous Production Facilities (HPFs) that were registered in the State Registry. To provide for the safe operation of the HPFs and to prevent accidents and to ensure preparation for the liquidation of said accidents, the Company has implemented the following:

- Registration/exclusion/re-registration of the HPFs in the State Registry;
- Development and putting into effect documents that regulate the safe operation of the HPFs;
- Reception of positive industrial safety expert conclusions concerning emergency localization and liquidation plans and concerning documents related to the transportation of hazardous substances. The conclusions obtained from the Russian Federal Service for Environmental, Technological and Nuclear Supervision are registered under #08-ID-(T)1272-2012 and #08-ID-(T)1240-2012, respectively;
- Insurance of general liability against harm done as the result of an accident at the HPFs;
- Training and certification of personnel on industrial safety.

In 2012, the Company approved Guidelines for the certification of technical equipment used at the Company's HPFs to regulate the procedures for the certification, diagnostics and expert assessment of said equipment.

Fire Safety

No fires were registered at the Company's facilities or within the Company's overhead lines guard zones. The only disturbance involving fire that was registered in 2012 occurred at the Kolpino 330 kV SS. The fire occurred due to the damaged input of the 330 kV automatic transformer, which resulted in the emission and inflammation of transformer oil. Damages resulting from the fire amounted to RUR1.63 million.

The decrease in the number of fires at Company facilities caused by substation equipment disturbances is the result of instituting additional fire safety measures during preparation for the fire hazard period, and also due to implementing the Program to upgrade and enhance fire safety at the UNEG and Federal Grid Company. The RUR1,059.7 million assigned for the above-mentioned purposes for the 2011-2017 period are to be generated by the Company's economic and investment activities. The considerable growth in fire safety costs is caused by the need to replace worn elements of the main firefighting systems.

IN 2012 MEASURES UNDERTAKEN BY THE COMPANY TO REDUCE THE CONSUMPTION OF THERMAL AND ELECTRIC POWER RESULTED IN A SAVINGS OF

20852147

RUBLES (EXCL. VAT)

Economic Aspect – Improving Energy Efficiency

Energy efficiency is one of the priorities of Russia's technological development. Pursuant to the Russian Federal law "On Energy Saving and Improving Energy Efficiency," the Company developed a program for energy saving and improving energy efficiency (for the 2010-2014 period). The Program is intended to provide for the economic and rational use of fuel and energy resources by upgrading the energy efficiency of the Company's equipment and facilities.

THE GOALS OF THE PROGRAM FOR ENERGY SAVING AND ENERGY EFFICIENCY FOR THE 2010-2014 PERIOD

- Cutting down the consumption of resources
- Equipping Company facilities with energy and other resource metering devices and collecting data from these devices
- Minimizing losses associated with electric energy transmission
- Enhancing energy cost control mechanisms

Data on the Volume of Technological Power Consumption in the UNEG and Fuel and Energy Resources Used by the Company

In 2012, fuel and energy resources used by the Company included: electric and heat power, and fuels and lubricants (petroleum and diesel fuel).

Fuel and Energy Consumption Volumes (as accounted for by the Program)

Index	Volume	Technological Effect of the Company's efforts aimed at the reduction of energy/fuel consumption	Economic Effect of the Company's efforts aimed at the reduction of energy/fuel consumption, RUR thousand, excl. VAT
Technological consumption of electric energy within the UNEG	21,945,800,740 kWh	214,019,110 kWh	199,300.87
Electric energy consumed in buildings	31,470,170 kWh	860,860 kWh	2,666.16
Thermal energy consumed in buildings	46,250 Gcal	2,940 Gcal	2,776.97
Consumption of petroleum	9,044,710 liters	105,740 litres	2,701.27
Consumption of diesel fuel	7,450,120 liters	41,710 litres	1,076.20

Economic Aspect – Import Substitution

The Company strives to minimize its import dependence by developing the manufacture of electro-technical equipment domestically and by increasing the share of Russian equipment in the Company's investment program, as well as in repair and targeted programs.

In pursuit of the above-mentioned goal, the Company has signed 95 cooperation agreements, with 77 agreements concluded with manufacturers of electro-technical equipment. Seventy-two of these are domestic manufacturers. All agreements are intended to facilitate cooperation in the field of development and the use of the most innovative technologies and equipment.

The Company's cooperation with regional enterprises

Region	Cooperation
THE SVERDLOVSK REGION	Manufacture of components for Siemens equipment
THE KALUGA REGION	Construction of the HVL, substation construction, development of cable manufacturing
THE REPUBLIC OF INGUSHETIA	Development of high precision equipment and component materials manufacture
THE REPUBLIC OF MORDOVIA	Development of manufacturing for new products and widening the range of existing products (high temperature wires, overhead protection with optical cables)
THE REPUBLIC OF DAGESTAN	Construction of a substation, the use of high precision equipment at Company facilities, the establishment of the Electro-technical College
THE CHECHEN REPUBLIC	Construction of a substation, development of production facilities
THE REPUBLIC OF TATARSTAN	Development of wire and cable manufacturing facilities

The results of the Company's import substitution initiatives implemented during the reporting year are as follows:

— JSC Elektrozavod launched the manufacture of 100-500 kV transformer equipment, pursuant to a long-term agreement to supply electrical products to the Company's facilities;

— The 110-500 kV SF6 insulated manufacturing facility was constructed by Hyundai Electrosystems LLC (in the city of Artyom). The supply of SF6 insulated equipment to the Company's facilities will commence in 2013, pursuant to the long-term agreement for the supply of electrical products, which the Company concluded with Hyundai Electrosystems LLC;

— Izhora Transformers LLC, a company engaged in the construction of a transformer manufacturing facility in Kolpino, was established in cooperation with JSC Power Machines. The manufacture and supply of 110-500 kV transformers will start in 2014;

— The first power and distribution transformers were supplied to the Company's facilities, pursuant to a supply agreement concluded with JSC Elektrozavod.

Economic Aspect – Procurement Activities

The Company is actively making purchases in all regions in which the Company operates. The Company's procurement activities are designed to purchase equipment and services on the competitive market. Procurements are made using funds from the Company's investment, repair and targeted programs.

The Principles of the Company's Procurement Activities

THE OPENNESS PRINCIPLE	THE COMPETITIVENESS PRINCIPLE	THE FEASIBILITY PRINCIPLE
The rules for the organization of procurement activities are publicly accessible. Information on the violations of said rules can be sent to the Company's Central Tender Committee (CTC). Information on CTC membership is also available on the Company's website. CTC members include: representatives of the Russian Ministry of Energy and the Federal Anti-Monopoly Service. Therefore, the decisions taken are in line with the position of State authorities. The majority of purchases are made using open tenders. Information about tenders is available on the websites of the companies and in the mass media as well.	The regulation system gives preference to open tenders that provide maximum competition. Any limitation of competition, especially procurements from a "last resort" supplier should be well-grounded and decided upon collectively. In critical cases, such decisions are made by the Company's CTC exclusively, subject to follow-up approval by the Company's Management Board.	The rules require that every decision be verified for feasibility and documented in order to increase purchasing efficiency and to prevent corruption

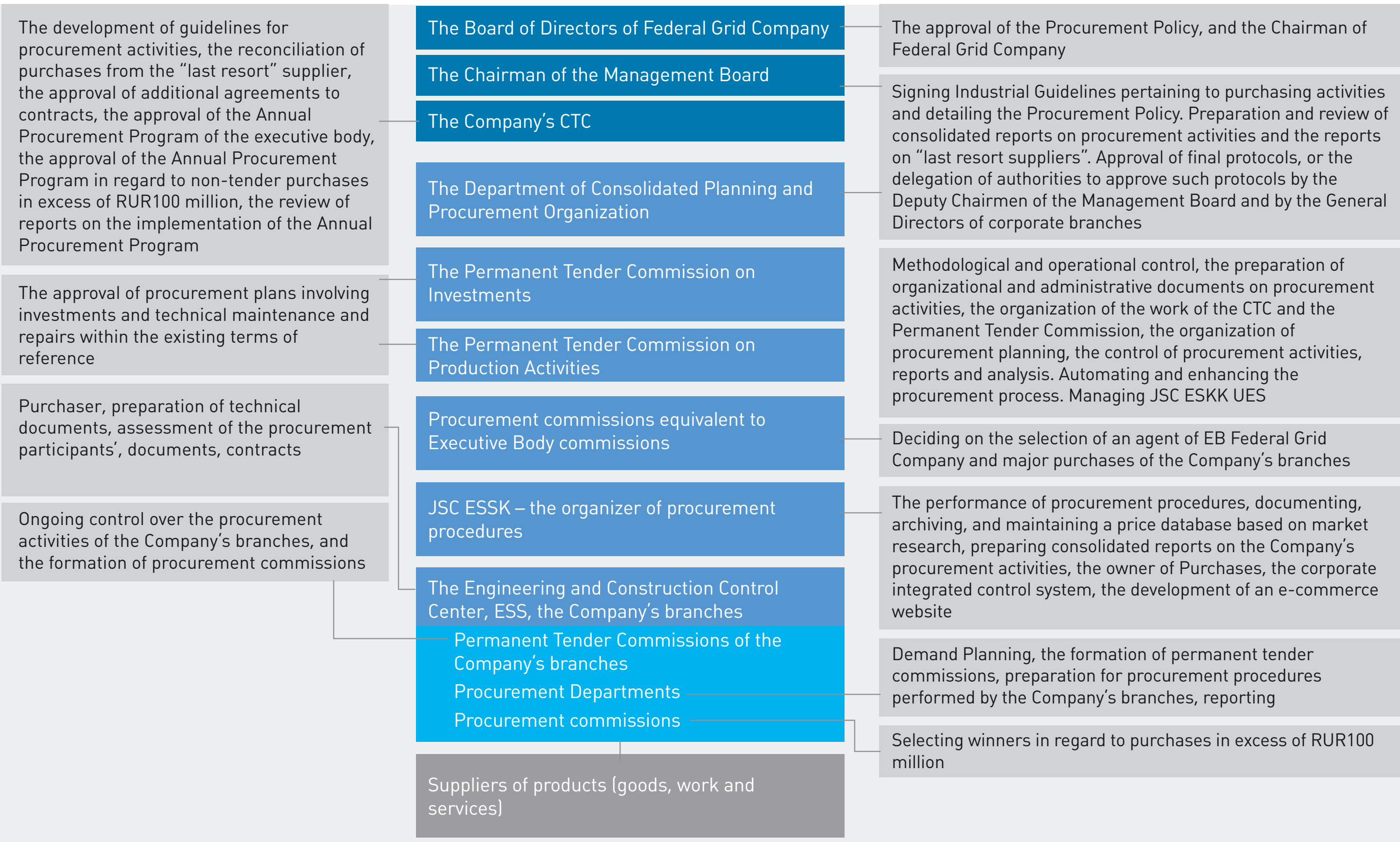
The Goals of Procurement Activities

1 Reduction in the Company's costs due to savings resulting from product procurement (goods, work and services)

2 Supply of products for the Company:
— Of required quality
— At minimal cost
— On time

3 Optimizarion of the procurement control system on advanced practices

The Procurement System Model

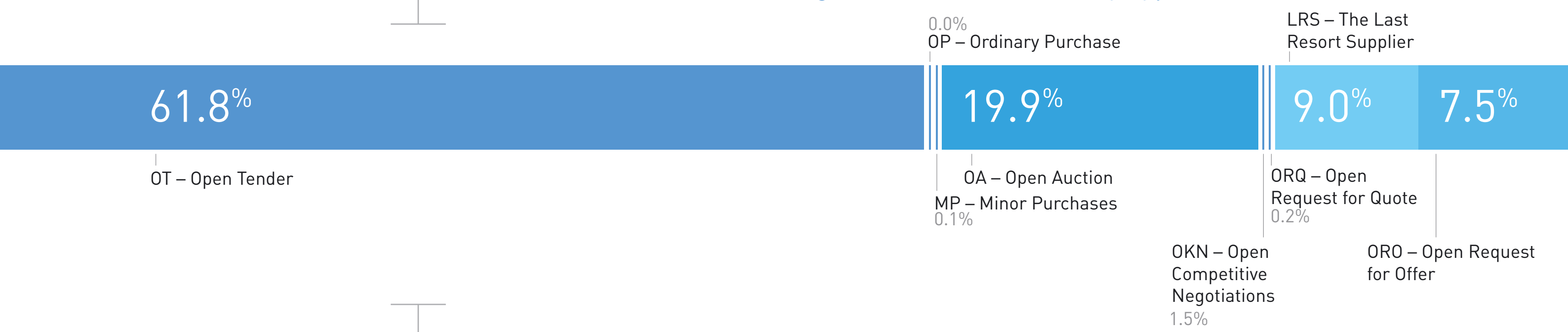


As early as 2008, long before State and municipal orders for open and competitive procedures went electronic, the Company started to implement procurement procedures using an e-commerce system called TZS Electra. Beginning in October 2012, the Company placed its orders on the official all-Russian website www.zakupki.gov.ru. To encourage competition, the Company also approved the use of two more e-commerce websites, www.etp.roseltorg.ru (owned by JSC EETP) and www.sberbank-ast.ru (owned by Sberbank-AST).

The main document regulating the Company's procurement activities is the Policy on the procedure for the regulated purchases of goods, work and services. The Policy provides for organizing the purchases of goods, work and services based on unified guidelines, using advanced procurement procedures (which are mostly tender-based).

The share of tender-based purchases made by the Company in 2012 was traditionally high, amounting to RUR158,526,746.2 million, or 91% of total corporate procurements.

The Structure of 2011 Regulated Procurements by Type



Economic Aspect — Innovations

The use of innovative technologies in the national economy, including the power industry, is one of the ways to ensure the country's energy security and sustainable development. Innovations used in the power industry directly influence living standards, driving the development of the country and society as a whole. One of the Company's priorities involves implementing innovations, as this process is of paramount importance to the economic growth of Russia and its regions.

During the reporting year, the Company proceeded with implementing the Innovative Development Program for the period till 2016, with a view till 2020. Within the framework of the Program, we have made steps to modernize and develop the UNEG, and to form the conceptual, technological and manufacturing basics and terms of development for the smart energy system based on the active adaptive system (SES AAS), to implement pilot projects, and to enhance business processes and organizational mechanisms of the Company to accomplish innovative development tasks.

The smart energy system – a new era in the electric energy sector:

BEGINNING OF ELECTRIFICATION

COAL ERA

UNSTABLE ENERGY SYSTEM

Local production of electric energy

Electric energy supply in isolated systems with random traffic

Fossil fuel, water resources

WIDESPREAD PRODUCTION OF ELECTRIC ENERGY

FOSSIL FUEL ERA

UNSTABLE ENERGY SYSTEM

Generation corresponds with traffic

Integrated grid, centralized generation of electric energy, forecast traffic, mono-directional energy exchange

Fossil fuel, water, wind, and solar resources and nuclear energy

NEW ERA OF ELECTRIFICATION

ERA OF SMART GRIDS

STABLE ENERGY SYSTEM

Traffic corresponds with generation

Centralized and decentralized generation, management via ICT, two way energy exchange

"Pure" coal, gas, nuclear energy

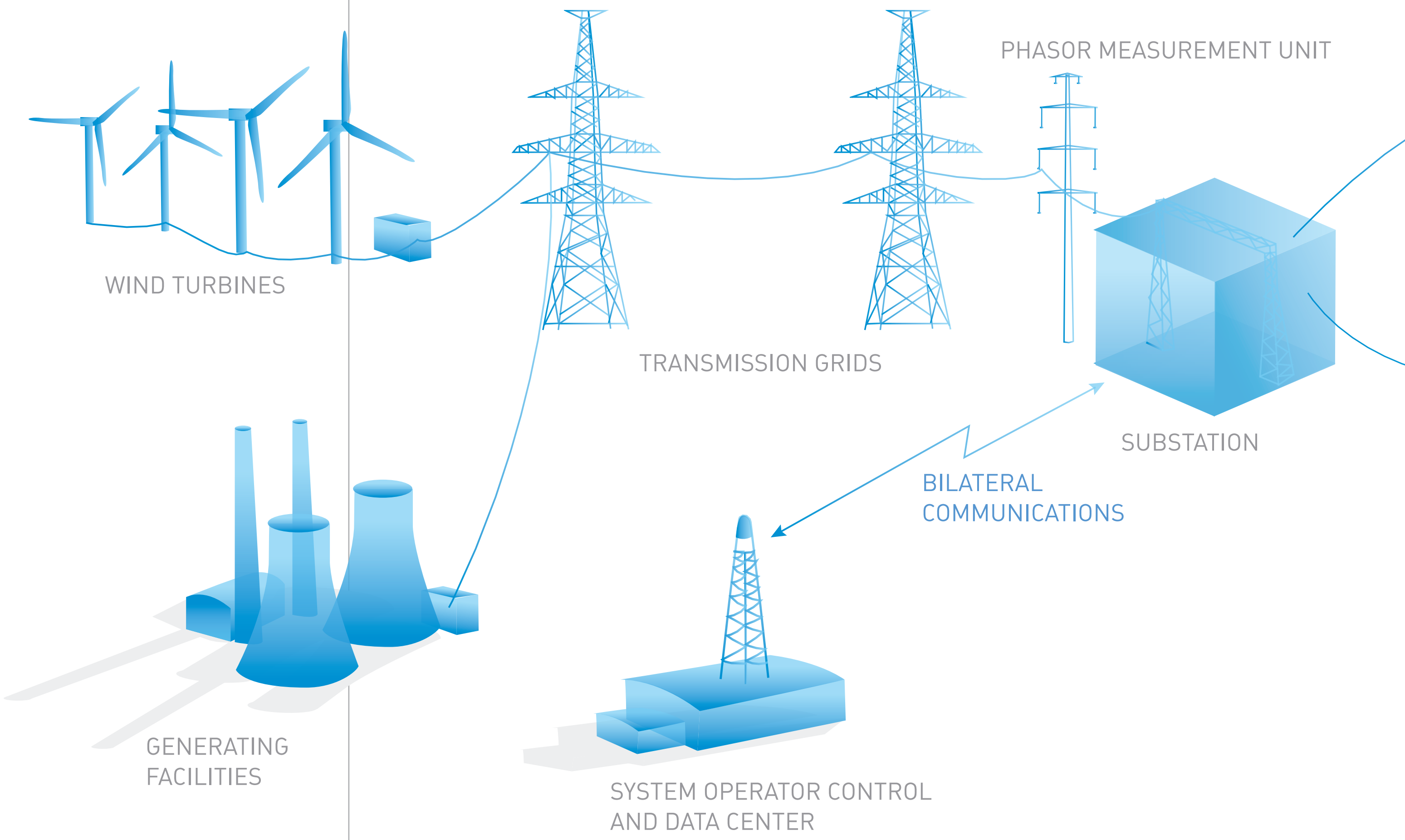
Excluding the environmental factor → Environmental protection

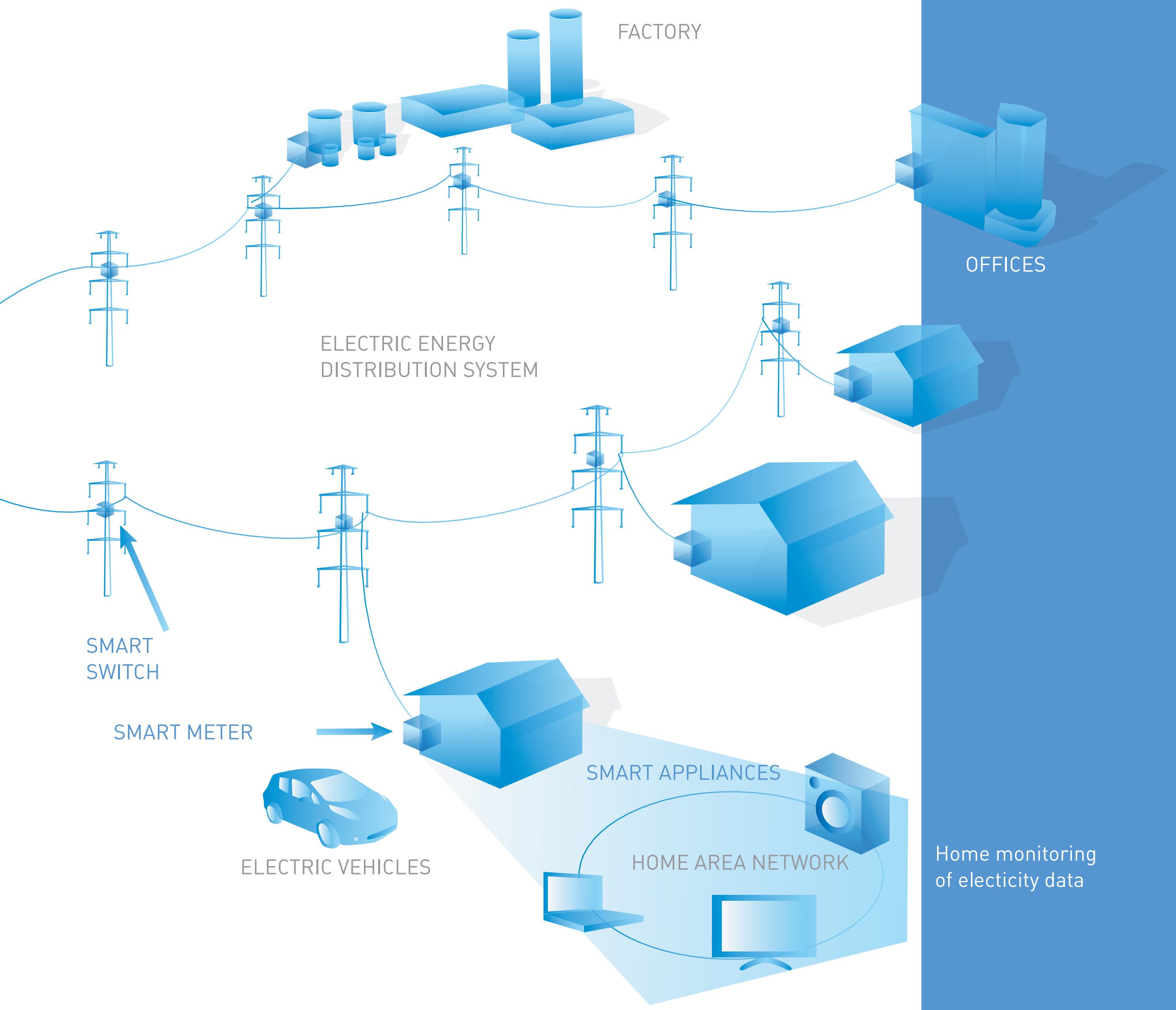
ICT – information and communications technologies

Smart grid operation scheme

A smart grid (a part of the active-adaptive grid) uses new principles and technologies for electric energy transmission and conversion which leads to:

- High rate of active elements in the grid, which changes the topological parameters of the grid;
- Large number of sensors measuring current regime parameters to assess the grid's status in various regimes of energy system operations;
- System of data collection and processing (software and hardware) and a system of active grid elements and consumer electric energy devices management;
- Existence of required executive bodies and mechanisms providing for the on-line adjustment of grid topology changes and allowing for interactions with adjoining energy facilities;
- Tools for the automatic evaluation of the current situation and development forecasts of the grid's operations, high processing speed of the management system and information exchange.





Home monitoring
of electicity data

We are confident that the Company's Innovative Development Program will contribute to the more efficient use of Russia's energy potential, providing for the fully-featured integration of UES of Russia into the global energy market, contributing to the development of innovative technologies and ensuring the development of the domestic industry, which will result in all of the positive technological and socio-economic effects listed below:

Program Priorities	Technological Effects
Technologies upgrading the system reliability of UES of Russia	Improving the lightning-surge protection of overhead lines (decreasing the fault rate by 25-30%); Improving the explosion protection of electric equipment; Limiting short-circuit currents in mega-cities (saving on the installation of additional equipment at substations by 1.5-2 times); ncreasing grid throughput capacity while reducing mass and dimension parameters (using high temperature super-conductor technologies, and new types of overhead line wires).
Smart grid technologies (improving grid flexibility and controllability)	Developing electric equipment that have controllable electric characteristics (FACTS, STATKOV, controllable shunt reactors, etc.); Developing equipment and grid infrastructure self-recovery technologies; Developing electric equipment based on power electronics; Using power storage systems (optimizing generation and consumption and saving up to RUR15 billion a year).
Cutting electric energy grid operating costs	Improving grid automation (preventive control and automatic changes in grid characteristics and topology); Cutting down the duration of installation and grid element repair.
Reducing the cost of up-to-date reliable and highly efficient equipment	Reducing equipment cost (including the cost of equipment based on semi-conductor electronics by 2-3% per annum).

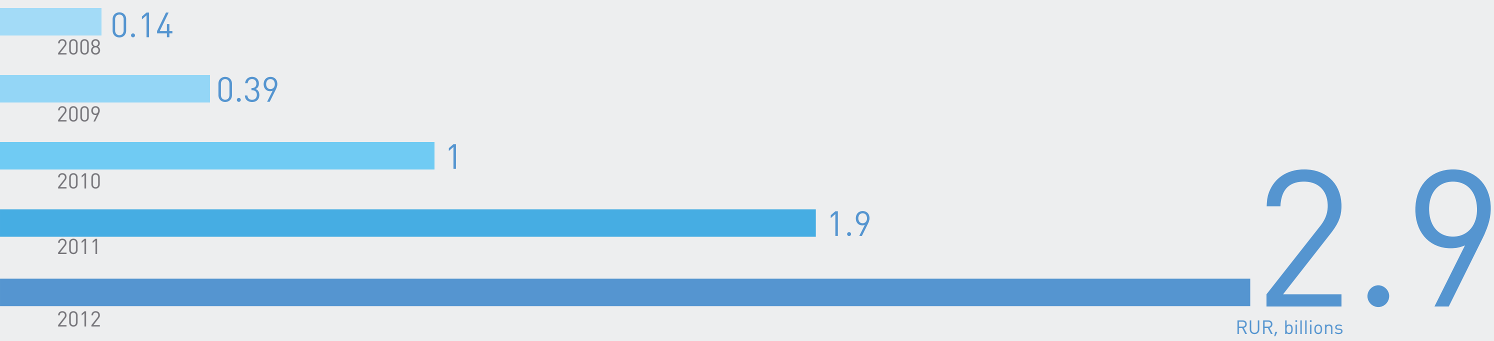
Priorities	Comprehensive Socio-Economic Effect
Environmental protection	Providing for power distribution in excess of 3.5 GW by power plants generating power from renewable sources; Reducing atmospheric CO_2 emissions by 2.5 million tons due to minimizing power losses; Freeing more than 2,000 hectares of land from the grid infrastructure in mega-cities.
Efficiency	Cutting down the relative losses of power in main grids from 4.8% to 4%.
Reliability	Implementing new services for consumers; Decreasing consumer under-supply 2 times.
Systemic Effect for the Russian UES	Reducing the number of closed power supply centers from 251 to 43; Equalizing the load schedules through the use of large capacity power storage systems; Lowering the growth rate for grid and generating equipment (saving 3-5% on the growth rate of the installed power of power plants due to reducing the required power reserve starting from 2014).
Socio-economic Effect	Developing new territories by electrification of the country's remote locations (mineral deposits and transportation systems in Siberia and the Far East); Increasing the amount of taxes returned to the country's budget via the launch of new production facilities; Creating some 10,000 new jobs; Developing the domestic industry and adjacent sectors, providing for the development and implementation of new devices that have new characteristics, and establishing a domestic production base; Developing and discovering new R&D, and fundamental research trends.

Research and Development (R&D)

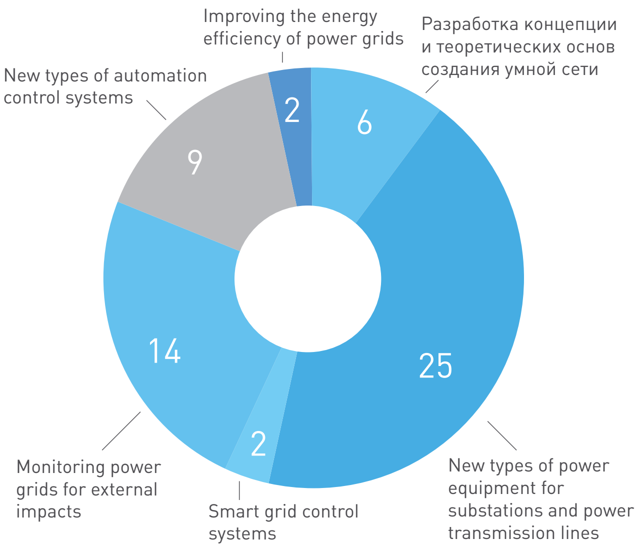
The Company's Innovative Development Program includes performing Research and Development (R&D) work intended to develop, test and implement "breakthrough" and "improving" innovative technologies at UNEG facilities. These technologies include: electric energy storage systems, "digital" substations, high temperature super-conductor technologies and direct current power transmission technologies.

In accordance with the Company's 2013-2017 Investment Program, in 2012, the Company plans to spend RUR2.9 billion to implement the R&D Program; this is 50% more than in 2011.

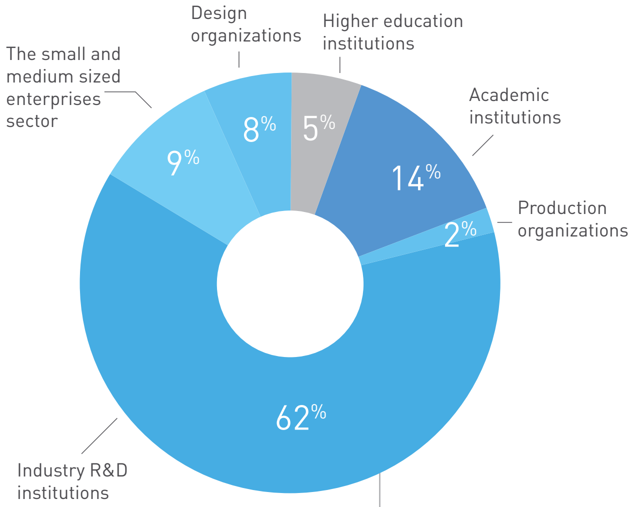
R&D Financing Broken Down by Year, RUR billion.



R&D Priorities



R&D Financing Structure



39

USEFUL MODEL
PATENTS RECIEVED IN 2012

In 2012, our specialists developed and produced more than 10 prototypes for innovative equipment, including:

- A model of a blast resistant transformer (the technology will allow for safe operations of UNEG facilities, to exclude deformation of the transformer with the leaking and ignition of transformer oil and further damage of substation equipment);
- A new type of quick-operating current-limiting 220kV (which allows to limit short circuit currents in the 220kV electric grids);
- A multi-polar multi-pole valve inverter for ice melting at high voltage overhead transmission lines;
- A high-voltage impulse generator.

Within the framework of the R&D Program, in 2012, we received 39 useful model patents (including 6 international ones), 6 patents for invention and 19 certificates for software.

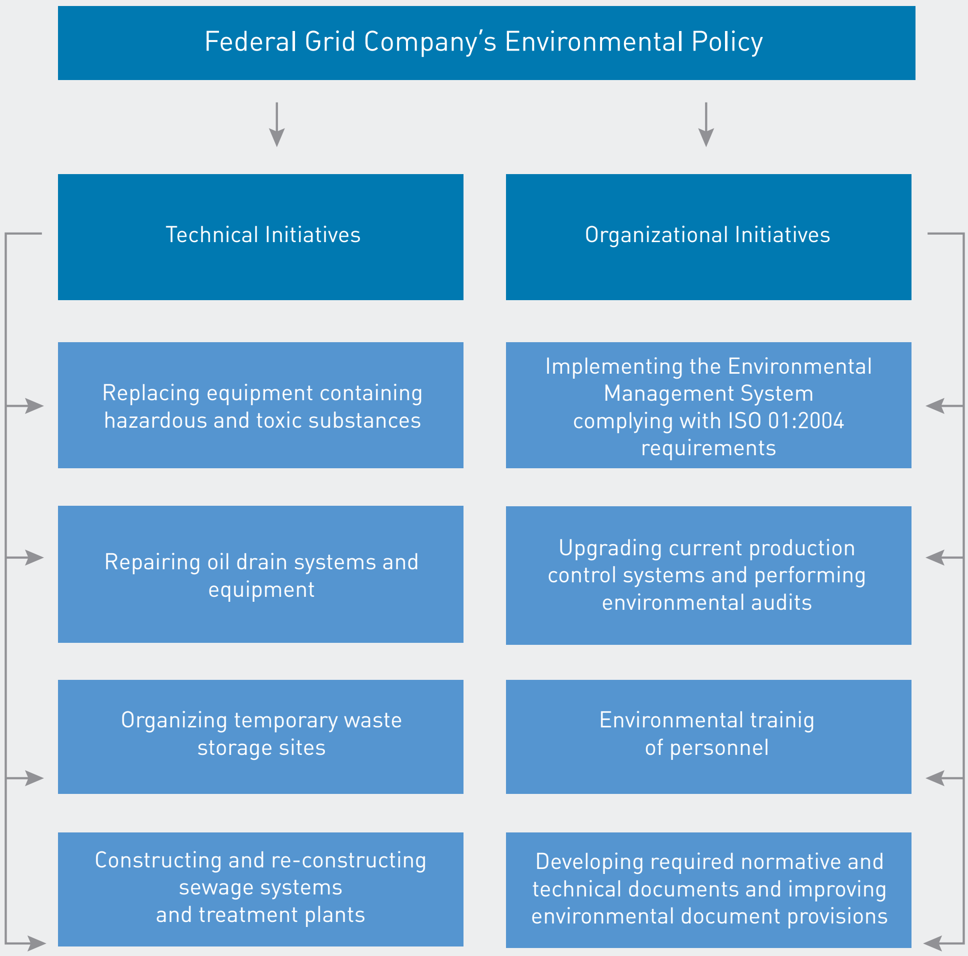
As a part of implementing priority pilot projects in UES of the East (territorial energy clusters), we developed a management system project for four substations of the Elgaugol Cluster, as well as a unique program and method for testing.

We also formed Federal Grid Company's Architectural Committee under the support of the Russian Academy of Science. The Committee is responsible for the development of smart grid architecture. Among Committee members are representatives of various energy organizations and industry experts.

Environmental Aspects – Environmental Protection

The Company is responsible in its approach to environmental protection issues. The Company's approach is intended to heighten the level of environmental safety, and to provide for reliable and environmentally safe power transmission and distribution.

The Company operates in compliance with its own Environmental Policy, which includes technical and organizational initiatives intended to minimize the negative impact of the Company's production activity on the environment.



The design of new facilities involves the development of special sections dedicated to environmental protection, that take into account all requirements of Russian environmental protection laws. The construction and re-construction of power grid facilities in accordance with the above-mentioned designs involves installing new environmentally-friendly equipment and implementing new technologies for laying and constructing power transmission lines.

In an effort to upgrade its environmental activities, in July 2012, the Company established a department to implement environmental policy. The new department will develop guidelines for the Company's environmental activities, including: compliance with State policy and corporate requirements on environmental safety, and the implementation and operation of the environmental management system, as well as representation of the Company's environmental interests while interacting with State authorities, non-governmental organizations and rating agencies.

The Company's main activity, which consists of power transmission, is much less harmful for the environment, compared with other power industry sectors, as emissions, discharges and wastes are not the result of the Company's production processes, occurring in the course of the Company's production activities and being the least harmful.

In 2012, the Company's negative environmental impact indicators were traditionally low:

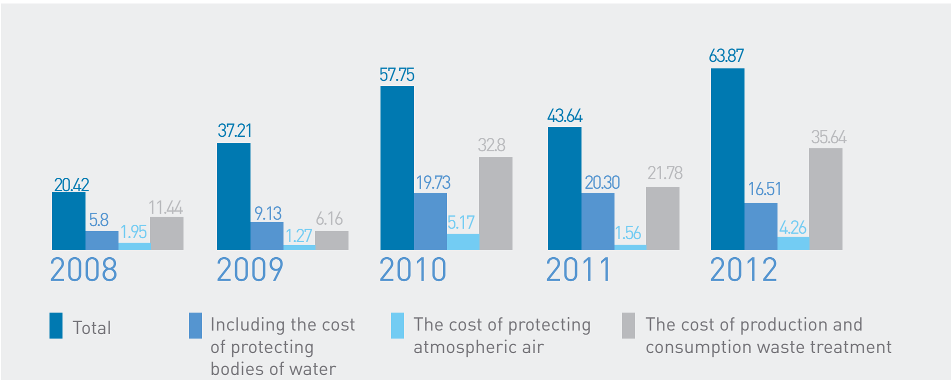
- The aggregate volume of atmospheric emissions – 114.7 tons;
- The volume of discharge to surface water bodies – 88.34 thousand cubic meters;
- The volume of I-V hazardous class wastes – 13.3 thousand tons.

Nonetheless the Company does its best to further minimize the impact of the Company's facilities on the environment, spending greater amounts to finance environmental initiatives in each coming year.

63.87

MILLION RUBLES SPENT ONENVIRONMENTAL PROTECTION INITIATIVES IMPLEMENTED IN 2012

The cost of environmental protection initiatives implemented in 2008-2012, RUR million

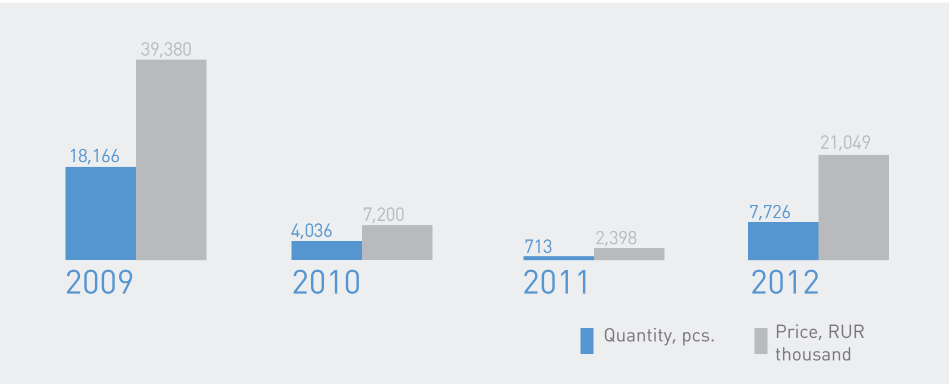


7,726

ITEMS OF EQUIPMENT CONTAINING TRICHLORDIPHENYL WERE HANDED OVER FOR DISPOSAL IN 2012

The Stockholm Convention signed and ratified by the Russian Federation requires that polychlorinated biphenyl not be used in equipment by 2025. In line with Convention requirements, the Company is proceeding to implement a program for the disposal and replacement of equipment containing trichlordiphenyl, a highly resistant environmental contaminant. Such equipment is replaced as soon as it wears out, or during the re-construction and modernization of substations. The dismantled equipment is handed over for disposal to specialized organizations.

The price and quantity of equipment containing trichlordiphenyl handed over for disposal



2012 initiatives implemented pursuant to the Environmental Policy Implementation Program include the following:

- Repair of oil drainage systems and equipment at 56 substations;
- Organization of temporary waste storage sites at 188 substations;
- Re-construction of sewage systems and household and rain water treatment plants at 28 substations.

In 2012, MES North-West, a branch of the Company, successfully implemented an environmental management system. The system's compliance with ISO 14001:2004 has been certified. Furthermore, a supervisory audit confirming the compliance of environmental activities with the above-mentioned standard was conducted at the executive body of the Company and also at MES South, another branch of the Company.

1222299500000₽

RUBLES
FEDERAL GRID COMPANY'S 2012
TOTAL ASSETS

Financial Performance Overview

Federal Grid Company of Unified Energy System

136581431000

RUBLES — REVENUE FROM ELECTRICITY TRANSMISSION SERVICES

Financial Performance Overview

Federal Grid Company's financial and economic management system is based on budgetary management that has been built in accordance with the hierarchical budget system rule.

In 2012, we approved the Budget Code - a fundamental document that regulates the long-term, medium-term and short-term financial and economic planning of the Company. The Budget Code defines fundamental methodological and organizational principles for creating and utilizing the system of financial and economic planning for the Company's operations. The Company's other regulatory documents concerning financial and economic planning and budget management are developed and adopted in Budget Code development.

FEDERAL GRID COMPANY'S BUDGET SYSTEM

Long-term planning horizon	Medium-term planning horizon	Short-term planning horizon
Financial plan with one-year planning horizon — Determination of target values for financial and production performance in the long-run; — Development of a production program and determination of necessary resources to accomplish it.	Business plan with a three-year planning horizon and a one-year planning step: — Determination of target values for financial and production performance in the medium-run; — Development of the production program and determination of necessary resources to accomplish it.	Current plan based on the budget with a one-year planning horizon and a one-quarter planning step based on target values.

During the reporting year, priority tasks of our financial and economic management system included:

— Maintaining an optimal level of financial discipline;

— Developing the planning system and budget management;

— Developing accounting and tax policies;

— Effectively utilizing borrowed capital to finance the Company's investment program;

— Successfully operating via RAB regulation.

Financial Performance

Federal Grid Company demonstrated the following 2012 year-end financial results:

Indicator	2008	2009	2010	2011	2012
Revenue	68,485	85,078	111,085	138,137	138,836
Production cost	58,977	64,080	75,680	84,174	106,618
Sales profit (loss)	5,156	15,870	28,584	45,236	22,364
Other income	38,377	113,770	144,907	175,671	113,556
Other expenses	37,356	183,688	111,763	209,463	150,152
Profit (loss) before taxes	6,177	-54,049	67,312	11,444	-14,232
Deferred tax assets	7	-180	-33	46	-62
Deferred tax liabilities	-217	-722	-1,181	-5,545	-8,736
Current profit tax	-3,225	-4,876	-9,264	-8,390	-1,471
Other similar mandatory charges	1,724	-39	249	-25	-0.3
Net profit (loss) for the reporting period	4,465	-59,866	57,082	-2,468	-24,502
Adjusted net profit	7,772	9,427	25,702	33,687	13,413

Indicators for the reviewed period (2010-2012) show sustainable growth in the revenues of Federal Grid Company. In 2012, sales revenues from the Company's main business increased RUR699.9 million compared with the same period from the previous year. Main growth drivers include: tariff revision in April 2011 and the change in the time for switching over to an annual tariff from 1 January to 1 July, resulting in 4% growth in revenues generated from electric energy transmission in 2012.

However, the 4% revenue growth was offset by the impact of factors beyond the Company's control - lower revenue from other areas of regulated activities:

- Revenue from compensating technological losses (-21%) due to a lower fixed rate of losses (from 4.84% in 2011 to 4.49% in 2012);
- Revenue from technological connection (-49%).

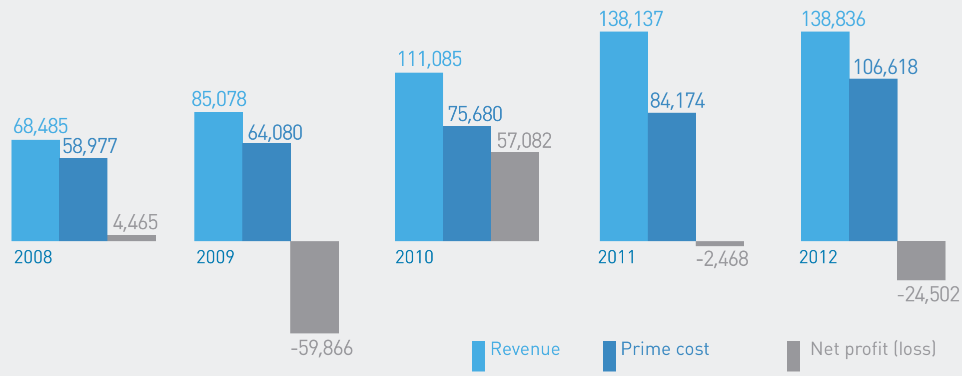
In 2012, the prime cost of the Company's services (without administrative expenses) increased RUR24,444 million (26.7%) year-on-year due to increased depreciation charges on the newly commissioned UNEG facilities, as part of the Company's investment program (depreciation charges amounted to RUR60,241 million in 2012 and RUR40,778 million as of the end of 2011).

The Company's 2012 financial and business results recorded losses of RUR24,502 million (a RUR2,468 million loss was recorded in 2011). The losses resulted from:

- Reflection of a negative difference resulting from the revaluation of financial investments (mainly JSC Inter RAO UES shares) at market value in the amount of RUR17,031.5 million.
- The negative balance for the establishment and recovery of financial investments impairment reserves (which market value is not established), which amounted to RUR9,564.24 million, including RUR8,610.4 million from ENERGO-Finance LLC bills and RUR953.6 million on financial investments in JSC Mobilnye GTES shares;
- The negative balance for the establishment and recovery of bad debt reserve in the amount of RUR9,977.2 million, including RUR6,904 million from Index Energetiki – FSK LLC bills (due to revaluation of shares on the Company's balance sheet in accordance with current market value), RUR4,621 million as a reserve on interest accrued from ENERGO-Finance LLC bills and from electric energy transmission services agreements with JSC Yantarenergo, JSC DRSK and JSC Dagenergoset.
- Reflection of revaluation of fixed assets which made a negative effect in the amount of RUR1,380.2 million.

Adjusted net profit (profit without losses from asset revaluation and operations involving the establishment and recovery of bad debt reserves and securities impairment reserve) is RUR13,413 million, a RUR20,274 million decrease from 2011.

2008-2012 dynamics of revenue, expenses and net profit, RUR million



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RUBLES
FEDERAL GRID COMPANY'S 2012
TOTAL ASSETS

2008-2012 key assets, equity and liability indicators, according to the Company's financial statement

Name of indicator, RUR million	as of 31 December 2008	as of 31 December 2009	as of 31 December 2010	as of 31 December 2011	as of 31 December 2012
Total assets	696,988	746,667	902,110	1,037,493	1,122,995
Non-current assets value	518,471	588,425	767,152	919,501	1,011,667
Current assets value	178,516	158,242	134,958	117,992	111,329
Total liabilities	696,988	746,667	902,110	1,037,493	1,122,995
Shareholder equity	639,329	665,436	794,192	853,526	849,602
Long-term liabilities	18,518	7,440	52,668	138,166	209,481
Short-term liabilities	39,141	73,791	55,250	45,801	63,912

The dynamics of the above-mentioned balance sheet indicators show a clear growth trend. During 2010-2012, the Company's total assets and liabilities saw a material growth due to an increase in non-current assets and a growth in long-term and medium-term liabilities.

In 2012, Federal Grid Company's total assets increased RUR85,502 million (+8.24%) to amount to RUR1,222,995 million, as of 31 December 2012.

Non-current assets increased 10% to amount to 1,011,667 million, which was due to:

— An increase in fixed assets commissioned in 2012 as part of Federal Grid Company's investment program;

— Decline in financial investments (-35.64%), resulting from them being revalued at market value.

Current assets decreased 5.6% to amount to RUR111,328 million. The following circumstances affected the change in current assets:

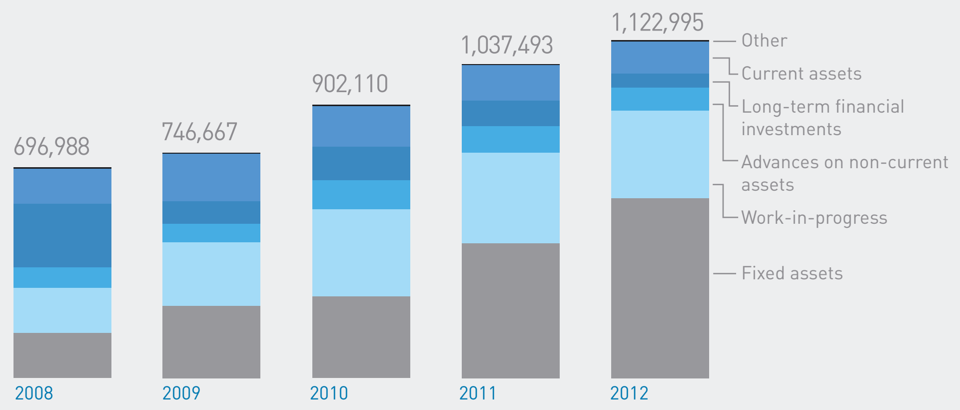
— Inventory decreases due to the optimization of the Company's inventory;

— Reduction in short-term financial investments due to the allocation of some part of funds to finance the Company's investment program;

The Company's capital reduction of RUR3,923 million during the reporting year was due to recording a RUR24,502 million loss, which was partially offset by a RUR2,219 million increase in Federal Grid Company's authorized capital owing to the registration of the 2011 additional equity issue with the Federal Financial Markets Service, and as a result of reflecting the annual fixed asset revaluation in the amount of RUR17,726 million (+8.9%).

In 2012, Federal Grid Company's borrowings increased RUR83,815 million compared with the same period of last year to amount to RUR215,589 million. This was due to raising long-term loans and bond issues to finance Federal Grid Company's investment program.

2008 — 2012 structural asset changes, RUR million



Liquidity indicators for Federal Grid Company's 2012 performance showed the Company's ability to re-pay its short-term liabilities. The above-mentioned indicators show a relatively high level of liquidity and solvency.

2008-2012 Corporate Financial Indicators

Indicator	as of 31 December 2008	as of 31 December 2009	as of 31 December 2010	as of 31 December 2011	as of 31 December 2012
Liquidity ratios*					
Absolute liquidity ratio	1.42	2.43	1.32	1.02	0.69
Short-term liquidity ratio	2.48	4.02	2.74	2.27	1.60
Current liquidity ratio	2.61	4.15	2.90	2.56	1.76
Capital structure ratios**					
Equity to total assets ratio	0.92	0.83	0.88	0.82	0.76
Debt to equity ratio	0.09	0.07	0.12	0.21	0.32
Profit margin ratios					
EBITDA margin***, %	47.8%	47.5%	60.7%	61.3%	59.7%
Profit margin***, %	11.3%	11.1%	22.4%	24.4%	9.7%
Return on assets***, %	1.1%	1.4%	2.8%	3.2%	1.2%
Asset turnover	0.10	0.12	0.12	0.13	0.12

Despite the decline, the liquidity ratios that are presented as of 31 December 2012 are within a normal range. The decrease in current, quick and absolute liquidity ratios is associated with decreased short-term financial investments.

The addressed period saw an insignificant reduction in the equity to total assets ratio, which was driven by growth in the Company's loan portfolio (raising loans and bonded loans to finance the investment program.) Nevertheless, the ratio is good and shows the strong financial sustainability of Federal Grid Company.

On the whole, Federal Grid Company maintains a high liquidity level and a good equity to total assets ratio; its equity constitutes 76% of assets.

* For the purpose of calculating the above-mentioned indicators, accounts payable exclude debt to shareholders on contributions to authorized capital;

** To calculate the above-mentioned indicators, equity includes debt to shareholders on monetary assets contributed to pay for the issued shares.

*** For the purpose of calculating the above-mentioned indicators, EBITDA (net profit) includes no factors that are external to the Company's management competency.

Key Principles on Using Available Cash

Available cash management is based on ensuring the maximum efficiency of investment and an optimal risk/return ratio.

In the reporting year, returns on financial investments were generated from investing available corporate cash into Russia's top banks with the highest reliability level. The banks were selected based on an assessment of their financial operations and the establishment of a risk limit. The main investment instruments relied on the investment term and included bank deposits, current account balances and bank notes.

In 2012, the Company's good performance was driven by reasonable liquidity management and streamlining the investment structure (in terms of returns on investment and minimizing risks).

Net Profit Distribution

The after-tax profit (net profit) of Federal Grid Company defined by financial statements is the source for reserve fund accrual and dividend payments. According to Federal Grid Company, looking at 2011 FY performance, the Company recorded losses of RUR24,502 million driven by the revaluation of financial investments in market-quoted shares and the recording of the accrual and reversal on provisions for doubtful debt.

2008-2012 Net Profit Distribution, RUR million

Distribution areas	2008	2009	2010	2011	2012
Retained earnings (losses) for the reporting period:	4,465	-59,866	58,088	-2,468	-24,502
Allocate to:					
Reserve fund	223	0	2,904	0	0
Development	4,242	0	18,578	0	0
Coverage for losses brought forward and remuneration to the Board of Directors	0	0	34,028	0	0
Dividends	0	0	2,578	0	0

Tariff Regulation

Energy transmission tariffs are subject to State regulation and are approved by the Russian Federal Tariff Service (FTS).

Key regulations governing tariff rates applicable to the UNEG energy transmission include:

- Federal Law No. 35-FZ on the Russian Energy Industry (dated 26 March 2003);
- Government Decree #1178 (dated 29 December 2011) on the pricing policy applicable to regulated prices (tariffs) in the energy industry;
- Government Decree #1220 (dated 31 December 2009) on defining applicable tariff rates on long-term tariffs for the reliability and quality of goods and services provided;
- Government Decree #1172 (dated 27 December 2010) on the approval of wholesale electricity and capacity market rules and amendments to some Government orders related to the wholesale electricity and capacity market;
- Russian FTS Decree #56-e/1 on the approval of methodological guidelines to calculate energy transmission tariffs via the Unified National (all-Russian) Electric Grid;
- Russian FTS Decree # 228-e (dated 30 March 2012) on the approval of methodological guidelines to regulate tariffs using the return on invested capital (RAB-regulation) method;
- Russian FTS Decree #347-e/4 (dated 4 December 2009) on the approval of the rate of return on invested capital to calculate tariffs on energy transmission tariffs via the Unified National (all-Russian) Electric Grid;

Before 2010, the UNEG energy transmission tariff rates for Federal Grid Company were established by the economically reasonable cost method.

Since 2010, as a part of measures to upgrade the investment attractiveness of the electricity industry, Federal Grid Company has had rates for electricity transmission services across the UNEG established based on the return on invested capital (RAB-regulation) method.

To determine the tariff for each year of the regulated accounting period, required gross proceeds are calculated by summing the values of the return, the return on invested capital and the value of expenditures required to render electricity transmission services across the UNEG. To avoid a sharp rise in rates as a result of the RAB-regulation, a smoothing mechanism is provided. This mechanism involves re-distributing required gross proceeds during the long-term regulatory period.

For the first long-term regulatory period (2010-2014), the Russian FTS established the following basic long-term tariff regulation parameters for Federal Grid Company based on the return on invested capital method.

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

* In compliance with the Basics of Pricing Setting in the Sphere of Regulated Prices (Tariffs) in the Electric Energy Industry, which were adopted by the Russian Government Decree #1178 dated 29 December 2011 "On Price Setting in the Sphere of Regulated Prices (Tariffs) in the Electric Energy Industry", the rate of return during the first long-term period of regulating, excluding the last year, may be set on a case-by-case basis with regard to capital invested until the switch to RAB-regulation and with regard to capital created.

** In connection with the adoption of the Russian Government Decree #1178 dated 29 December 2011 "On Price Setting in the Sphere of Regulated Prices (Tariffs) in the Electric Energy Industry", and the switch since 2012 to the recording of facilities on the basis of invested capital as they are commissioned, to calculate the required gross revenue for each year of the long-term regulation period, the actual cost of facilities put into operation in 2011, and the cost of facilities planned to be commissioned in 2012-2013 is reduced by the value of assets under construction, recorded in the cost of invested capital when Federal Grid Company switches to RAB-regulation in the amount of RUR205.6 billion, which is distributed for 3 years.

The Government of the Russian Federation decided to postpone the indexation of prices (tariffs) for goods (services) of natural monopolies, including electric grid companies from 1 January to 1 July of the next calendar year. Based on this, the Management of the Russian FTS made the decision to set Federal Grid Company's tariffs for electric power transmission to the UNEG for H1 2012 at 2011 tariff levels.

In accordance with the Basics on Price Setting, Russian FTS Decree #113-e/1 (dated 21 May 2012) adjusted the rate of return on "old" capital, established for 2014: the rate of return on old capital in 2014 is set at the rate of return on "new capital" and is 10%.

For the North Caucasus Republics and the Stavropol Territory, the tariffs for electric power transmission and the maintenance of UNEG power facilities were set in the following amounts:

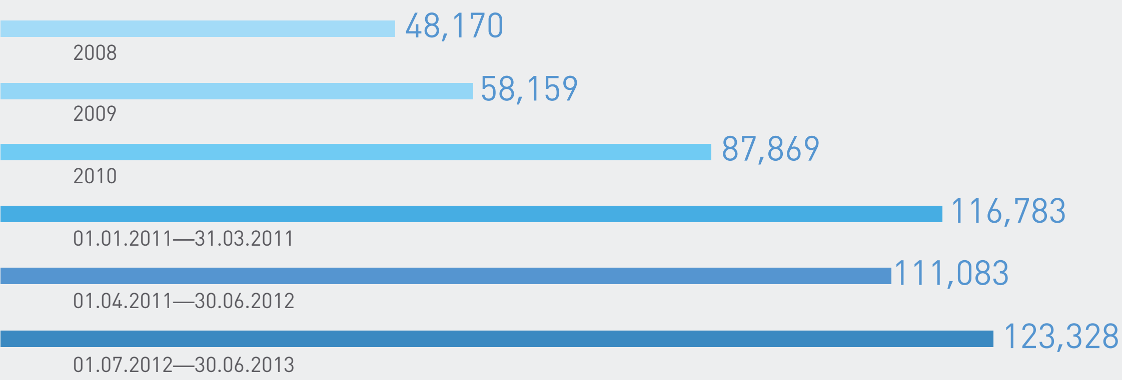
For 2010 – RUR37,845.23/MW per month;

For the period of 1 December – 31 March 2011 – RUR46, 029.88/MW per month;

For the period of 1 April 2011 – 30 June 2012 – RUR43,783.55/MW per month;

For the period of 1 July 2012 – 30 June 2013 – RUR48,540.01/MW per month;

Federal Grid Company Tariffs on Energy Transmission Services and UNEG Electric Facilities Maintenance for the 2008-2012 Period (RUR/MW/month)



Tariff regulation based on long-term tariff rates with a view to the return on invested capital involves the Company's compliance with service reliability and quality performance as set forth by the Russian Federal Tariff Service (FTS).

Order #296 of Russia's Ministry of Energy (dated 29 June 2010) establishes methods to calculate the reliability and quality of provided goods and services for the organization operating the Unified National (all-Russian) Electric Grid (UNEG) and territorial grid organizations.

The performance list includes indicators of energy transmission reliability characteristics for technical failures and their effects on consumers and service quality provided to consumers which, in particular, describe the technical connection capacity.

The Russian FTS Order #254-e/1 (dated 26 October 2010) established methodological guidelines for the calculation and application of multiplying (decreasing) factors for compliance with tariff rates set for organizations that are involved in regulated activity (with the reliability and quality levels of provided goods and services). Subject to the above-mentioned Guidelines, the Company's revenues will be subject to multiplying or decreasing factors within the 3% limit.

The FTS decision to establish 2011-2014 tariffs involves planned service reliability and quality indicators for the UNEG-operating organization for the 2011-2014 period.

Indicator	Regulation Period			
	2011	2012	2013	2014
Service reliability level	0.0490	0.0483	0.0475	0.0468
Service quality level	1.2599	1.2410	1.2224	1.2040

In 2012, the actual reliability and quality levels of services provided by Federal Grid Company were:

Service
reliability level

0.0241

Service
quality level

1.2101

The transition of Federal Grid Company to RAB-regulation ensured adequate financial potential to meet large-scale challenges in investment activities. The approved investment program will enable the Company to: enhance stable energy supply to customers, provide the generation capacity of power plants, upgrade its grid and implement a range of important government projects. Moreover, RAB-regulation defines a brand new approach to cost management in terms of established operational expense performance (2% per annum for Federal Grid Company).

Cost Optimization

As part of the Russian Federation President's and Government's order to cut the per-unit purchase costs of goods, work and services by at least 10 percent per annum over three years, as well as of the Ministry of Energy's instruction to ensure a 10% cost reduction from 2010 expenditure levels, Federal Grid Company carries out the Cost Management Program.

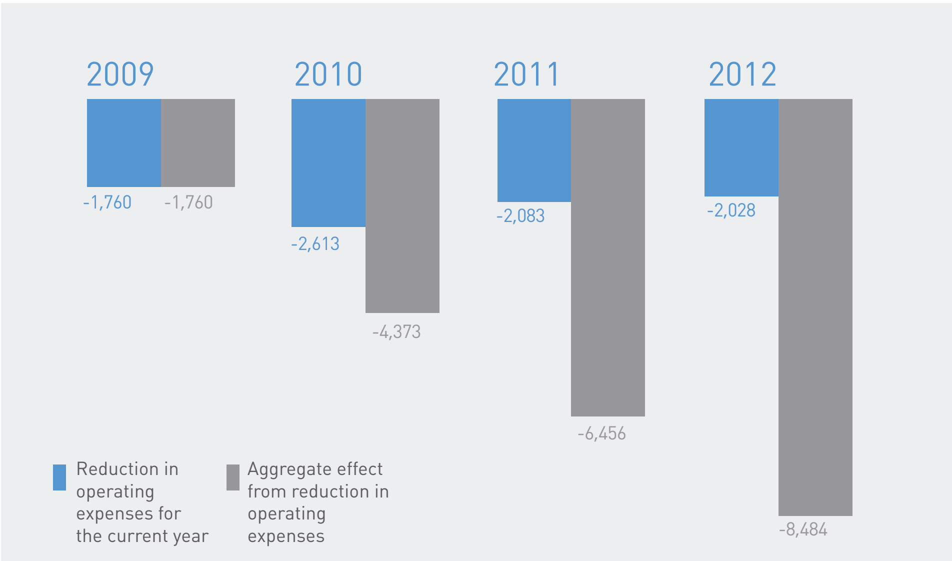
The total expected effect from implementing the 2009-2012 Cost Management Program was RUR8,620 million.

RUR 8,620 million

The effect of implementing the Cost Management Program for 2012 was RUR2,164.65 million, indicating a 6.6% decrease in the Company's costs in 2012 (compared with the 2010 expenditure level).

RUR 2,164.65 million

2009-2012 Changes in Reducing Operating Expenses, RUR million



Cost optimization is one of the Company's key objectives to reduce the tariff burden on consumers and lower expectations in the economy, while maintaining the required level of reliability and quality of goods supplied. In circumstances where tariff growth rates are constrained by regulating authorities, cost reduction is one of the main tools for upgrading the Company's economic performance.

The Cost Management Program covers the entire production cycle of the Company, from procurement to losses in electric grids when electric energy is distributed.

In terms of cost cutting in 2013-2015, the Company's focus involves:

- Cutting the per-unit purchase costs of goods, work and services by at least 10 percent per annum in real terms;
- Increasing performance by cutting operational expenses, nominal operating costs and losses within the UNEG;
- Employing the relevant number of highly qualified specialists to support Federal Grid Company business operations with optimal personnel costs.

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Debt Portfolio

By the end of 2012, Federal Grid Company's debt portfolio grew to RUR212.5 billion. It occurred due to: placing bond issues, raising credit from Gazprombank and placing Eurobonds on the Irish Stock Exchange. The Company meets its obligations on servicing its debt portfolio and debt re-payment in full and on time.

The Company's debt portfolio as of 31 December 2012:

Type of debt	Amount, RUR billion	Maturity
Bond issues	160	2.5-10 years
Gazprombank loan	35	3-5 years
Eurobonds	17.5	6.25 years
Total	212.5	-

In addition, the Company has revolving and non-revolving credit facilities opened with major Russian banks (Sberbank of Russia, Gazprombank, Alfa-Bank, NOMOS-Bank, Raiffeisenbank, ACB Russia, and Bank Saint Petersburg) with a maturity of 5-15 years. As of 31 December 2012, the total free limit of the credit facilities amounted to RUR122.5 billion.

We will continue to use all available tools to attract funding - bonds, Eurobonds and bank loans to finance the 2013-2017 investment program and to re-finance current debt. Furthermore, our Company plans to primarily use market-based instruments that provide lesser funding costs with longer borrowing terms.

The Company intends to cover cash shortages from existing and scheduled credit facilities and by offering bond issues on both Russian and foreign markets. The use of specific loan instruments will depend on market conditions.

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RUBLES
TOTAL FREE LIMIT OF THE COMPANY'S
CREDIT FACILITIES

2012 Bond Issues

On 6 June 2012, the MICEX Stock Exchange assigned registration numbers to eight issues of the Company's debut stock bonds, totaling RUR100 billion.

On 21 June 2012, the Federal Financial Markets Service of Russia (FFMS) registered the securities prospectus of Federal Grid Company for RUR125 billion.

The decision to place bonds and the Company's stock bonds was made by the Board of Directors on 27 April 2012.

In 2012, as part of adopted programs, the Company placed Bond Series 22, 21, 25, and BO-01 for a total of RUR45 billion.

As part of the previously approved 2011 program, the Company placed Bond Series 12 in the amount of RUR10 billion.

In 2012, the total amount of funding raised from the placement of bonds amounted to RUR55 billion. The bonds were placed via public subscription on the MICEX Stock Exchange to a broad-based group of investors. The funds raised were allocated to finance the investment program.

The Company's bonds fully comply with the Bank of Russia's requirements in order to be included in the Lombard List of the Bank of Russia and the list of securities accepted as collateral under re-purchase agreements.

Eurobonds

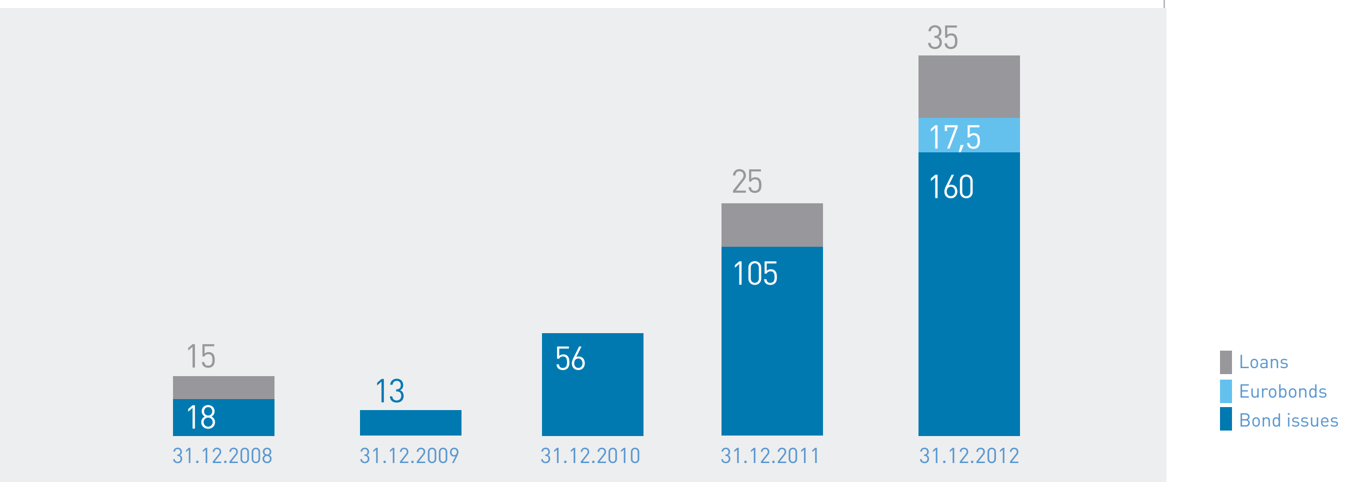
In 2012, Federal Grid Company entered the international borrowing market. The decision to place Eurobonds was made by the Board of Directors 27 April 2012.

On 13 December 2012, the placement of Federal Grid Company's inaugural issue of Eurobonds in the amount of RUR17.5 billion with a coupon rate of 8.446% per annum and a maturity in 2019 occurred. The securities were listed and admitted to trading on the Irish Stock Exchange.

The Eurobond issue was assigned ratings from the leading rating agencies, Standard & Poor's and Moody's, at the Company's ratings - BBB and Baa3.

Issuer	Issue	Outstanding issue	Maturity date
Federal Grid Finance Limited	RUR17.5 billion	RUR17.5 billion	13.03.2019
Coupon rate	Coupon payment period	Rating	ISIN
8.446%	Two times per year	Moody's: Baa3 S&P: BBB	XS0863439161

Debt Portfolio Performance



Credit Ratings

The high level of the Company's creditworthiness and its financial sustainability are confirmed by ratings assigned by top international rating agencies. The current credit ratings are in the investment category and show that the Company's key performance indicators (KPIs) are in compliance with the level required for the full and timely performance of financial obligations

Credit ratings as of 31 December 2012:

Standard & Poor's

International Scale
BBB/Stable

National Scale
ruAAA

Moody's

International Scale
Baa3/Stable

National Scale
Aaa.ru

Federal Grid Company's 2009-2012 credit ratings:

23.11.2012

Moody's assigned Federal Grid Company an international scale credit rating at Baa3, with a stable outlook. The national scale rating was confirmed at the same level - Aaa.ru. A downgrade in Moody's rating from Baa2 to Baa3 was caused by planned changes in the ownership structure of the Company, in accordance with the Russian President's Decree #1567 (dated 22 November 2012) "On Joint Stock Company Russian Grids". The Company's financial rating has remained unchanged.

11.10.2012

Standard & Poor's confirmed Federal Grid Company's credit ratings: long-term international scale credit rating at BBB, with a stable outlook and a national scale rating of ruAAA.

23.09.2011

Standard & Poor's confirmed Federal Grid Company's credit ratings: long-term international scale credit rating at BBB, with a stable outlook and a national scale rating of ruAAA.

12.05.2011

At its annual ratings review, Moody's confirmed Federal Grid Company's credit ratings at Baa2 with a stable outlook, as well as its national scale rating at Aaa.ru.

18.01.2011

PStandard & Poor's confirmed Federal Grid Company's credit ratings: long-term international scale credit rating at BBB, with a stable outlook and a national scale rating at ruAAA.

18.06.2010

Standard & Poor's confirmed Federal Grid Company's credit ratings: long-term international scale credit rating at BBB, with a stable outlook and a national scale rating at ruAAA.


Responsibility
Fairness
Transparency
Accountability

Corporate Governance Report

Federal Grid Company of Unified Energy System

Corporate Governance Report

Corporate Governance Principles

Acknowledging the need to maintain high corporate governance standards and business ethics for the successful conduct of operations, as well as the importance of ensuring shareholder rights, we have assumed liability to follow generally recognized Russian and international corporate governance principles, as stated in the Company's Corporate Governance Code, and to continuously upgrade corporate governance practices.

Company's Corporate Governance Principles

Accountability

The Board of Directors is accountable to all shareholders in compliance with Russian legislation.

The Board and the Chairman of the Board are accountable to the General Shareholders Meeting and to the Board of Directors.

Fairness

The Company protects the rights of shareholders and ensures the equal treatment of shareholders owning the same quantity of shares of the same type (category).

The Board of Directors gives all shareholders the opportunity to obtain effective protection in case their rights are violated.

Transparency

The Company provides for the prompt disclosure of complete and valid information about all salient facts related to its operations, including: its financial status, social and environmental indices, performance, the Company's ownership and governance, as well as free access to such information for shareholders and all other interested parties.

The Company ensures the implementation of an independent audit in order to obtain an external objective assessment of the preparation and submission of the Company's annual financial reporting.

Responsibility

The Company acknowledges the rights of all shareholders and all interested parties as provided for by Russian laws, and seeks to cooperate with shareholders and all interested parties for the purpose of its own growth and financial sustainability.

We constantly upgrade our corporate governance system by introducing integrated standards and management practices in all structural divisions, branches and subsidiaries and dependent companies. We also constantly monitor legislative amendments to bring the Company's constituent instruments, the documents regulating the activities of operating control, and other internal documents that ensure the effectiveness of the corporate governance system, in line with such amendments. All that boosts the Company's competitiveness and investor confidence, in view of the interests of a wide range of people, and helps ensure the most efficient use of capital by the Company, which, in the final analysis, beneficially impacts the Company's steady advances and enhances Russia's overall investment climate.

The effectiveness of the Company's corporate governance is ensured by the following internal documents:

— Regulations on the Procedures for Preparing and Holding the General Meeting of Shareholders;

— Regulations on Activities of the Board of Directors;

— Regulations on the Management Board;

— Regulations on the Audit Commission;

— Regulations on the Board of Directors' Audit Committee;

— Regulations on the Personnel and Remuneration Committee of the Board of Directors;

— Regulations on the Strategy Committee;

— Regulations on the Investment Committee;

— Code of Corporate Management;

— Regulations on the Dividend Policy;

— Regulations on the Information Policy;

— Regulations on Insider Information;

— Regulations on the Internal Control System;

— The Code of Corporate Ethics.

In 2012, our Company adopted a new Code of Corporate Governance which contained provisions significantly affecting both the quality of the Company's Corporate Governance in general, and its external assessment by shareholders, investors and other interested parties. The new Code expands the range of issues addressed by the Board of Directors in person, includes new sections and definitions particularly describing issues such as (potential) conflicts of interest of members of the Board of Directors with the interests of the Company, and the requirement that a member of the Board of Directors have an impeccable reputation. In addition, the new Code contains additional information about the Company's auditor.

Interactions of the Company with its subsidiaries and dependent companies (SDCs) are based on internal regulations, including:

— Regulations on the governance of subsidiaries and dependent companies;

— The order of the interaction of Federal Grid Company of Unified Energy System with its subsidiaries and dependent companies;

— Standard of the formation and submission by structural divisions of Federal Grid Company of positions and assignments to representatives of Federal Grid Company in the General Meetings of Shareholders and the Boards of Directors of subsidiaries and dependent companies.

The quality of the management of SDCs is growing due to the increased effectiveness of the Company's representatives in participating in the governance and control bodies of SDCs.

The full text of these documents can be found on the corporate website:

http://www.fsk-ees.ru/shareholders_and_investors/corporate_governance/constituent_and_internal_documents/

The Company's Information Policy

Our Information Policy includes fundamental information disclosure principles related to the Company's operations:

Regularity and Efficiency

Information is disclosed on a regular basis to interested parties and in the shortest possible time.

Accessibility of Information

Utilized channels and modes of information dissemination provide for the free, non-burdensome and non-selective method of information disclosure to interested parties.

Completeness and Credibility of Disclosed Information

Provided information is valid, and the Company does not avoid disclosing negative information about itself.

Maintaining a Reasonable Balance Between the Company's Openness and Adherence to its Commercial Interests

It is the prerequisite to protect information that constitutes commercial, State or other secrets protected by law, and the observance of rules for the use and dissemination of insider information.

In accordance with the Russian Federal Law "On Natural Monopolies", as well as with the Standards of Information Disclosure by players on the wholesale and retail electricity and capacity markets, our Company, which is a natural monopoly entity and a player on the Wholesale Electricity and Capacity Market (WECM) provides free access to information about its activities, including:

- On the rates for services with regard to those for which State regulation is applied;
- On key indicators of financial and economic activity;
- On the main consumer specifications of regulated services;
- On the technical feasibility of access to regulated services;
- On the registration and processing of the implementation of applications for technological connections to the Company's infrastructure;
- On the conditions for rendering regulated services;
- On a procedure for performing the technological, technical, and other activities related to technological connections to the Company's infrastructure;
- On investment programs, projects and their implementation;
- On the modes of purchase, cost, and on the amount of goods required for rendering regulated services.

www.fsk-ees.ru

Our Company discloses fully to the utmost information about themselves in both Russian and English on the corporate website, www.fsk-ees.ru. This information includes: salient events, quarterly and annual reports, statements in accordance with Russian and international standards, and information on management and control bodies, etc.

In addition to publishing significant information on its website, the Company discloses information on the website of Interfax agency http://www.e-disclosure.ru/portal/company.aspx?id=379, on the home page of the London Stock Exchange in the section Home Page/Prices and Markets/JSC Federal and in the print edition of "Rossiyskaya Gazeta".

Information Policy in the Field of the Long-term Development Process

Federal Grid Company manages the UNEG. To ensure the most efficient UNEG development, the Company's activities must be coordinated with other controlling bodies of the Russian electric power industry.

The Company's Information Transparency Policy, within the process of the UNEG long-term development, is based on maximum information for current and potential customers about the existing procedures of long-term development and about the possibilities of clients participating in these procedures.

Interaction efficiency and the fullness of information exchange with electric-power entities are ensured by virtue of the following principles:

Transparency in managerial decision-making in the area of the Grid's long-term development

Transparency in the funding of projected measures for the Grid's long-term development

Transparency of the process for the Grid's long-term development, i.e. clarity and transparency of the given process for Russia's electric-power entities.

Regular submission to the Grid's economic entities and to other interested parties of prompt and reliable information on projected measures related to the UNEG development.

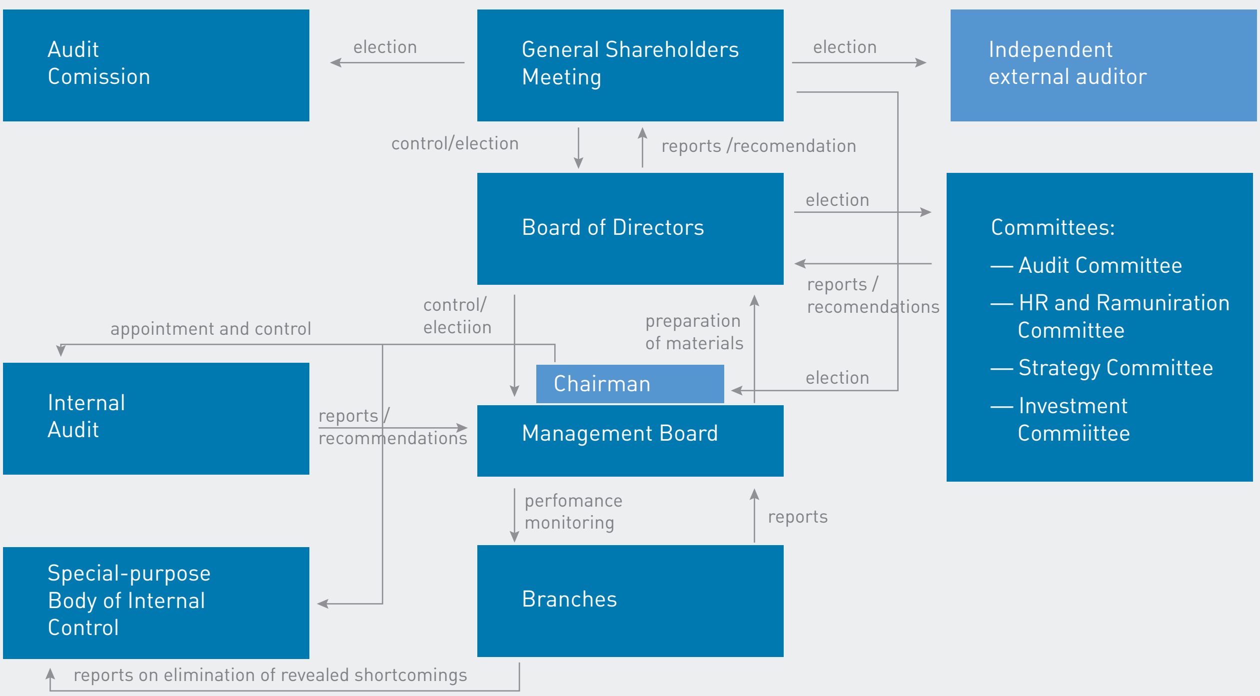
To provide various electric-power entities with access to information on the Grid's long-term development, we have undertaken the following measures:

- Regular announcements of events related to the long-term development of the UNEG on the Company's corporate website and the publication of information on such events in periodicals;
- Joint provision with JSC SO UES of draft documents on long-term development to relevant State bodies and other Russian electric-power entities;
- Providing information on the long-term development of the UNEG at requests of electric-power entities of the Russian Federation, and federal and regional State bodies of executive power;
- Formation of a single information space with electric-power entities of the Russian Federation involved in the process of planning the Grid's long-term development (a single database, single type of modes, etc.).

Management and Control Bodies

The Company's corporate management system has a well-developed structure with a seamless mechanism of interactions between management and control bodies.

Organizational Structure of the Company's Management Bodies



The Company's highest management body is the General Meeting of Shareholders. The Board of Directors sets the overall direction of corporate development and supervises the operations of the Company's Management Board, which carries out the Company's operational management. The Chairman of the Management Board is the Chief Executive Officer (CEO) of the Company. Under the Board of Directors, there are committees aiming to improve the effectiveness and quality of the Board of Directors. The Company employs an efficient control system, both externally by shareholders (the Independent Auditor and the Audit Commission) and internally (special-purpose bodies for internal audit and control).

General Meeting of Shareholders

Each common share grants shareholder the same scope of rights in accordance with current legislation.

A shareholder is entitled to:

— Participate personally or through his/her representatives in the General Meeting of Shareholders with the right to vote on all issues within his/her competence;

— Make proposals for the agenda of the General Meeting of Shareholders in accordance with existing Russian legislation and the Company's Charter;

— Receive information on the Company's operations and to examine documents in accordance with Article 91 of the Russian Federal Law "On Joint Stock Companies";

— Receive dividends declared by the Company;

— Engage in the pre-emptive purchase of additional shares and equity securities placed by open subscription convertible into shares in a quantity that is proportional to the number of owned shares of this category (type);

— Receive a part of the Company's property in case of its liquidation;

— Carry out other rights as stipulated by Russian legislation.

Shareholder(s) owning at least 2 percent of the voting shares of the Company shall be entitled to propose issues to the agenda of the annual General Meeting of Shareholders and nominate candidates to the Board of Directors, the Audit Commission, and a candidate for the position of the sole executive body of the Company (CEO). Submission of proposals to the agenda of the annual General Meeting of Shareholders must be received by the Company not later than 90 days after 31 December of the previous year.

Shareholder(s) owning at least 10 percent of voting shares, may call for the mandatory convening of an Extraordinary General Meeting of Shareholders.

In 2012, the Company held one General Meeting of Shareholders. The Annual General Meeting of Shareholders on 29 June approved the 2011 annual report and financial statement, also approved a new version of the Regulations on the Audit Commission and the Regulations on the payment of remuneration and compensation to the Board of Directors, as well as elected the Board of Directors and the Audit Commission, approved the Company's Auditor, and approved an interested party transaction. Also, the shareholders decided not to pay dividends on common shares for 2011, since based on results of the reporting period the Company incurred a loss.

http://www.fsk-ees.ru/shareholders_and_investors/information_for_shareholders/shareholders_39_meeting/

The Board of Directors

The Board of Directors carries out General Governance of the Company except for issues that fall under the competency of the General Meeting of Shareholders according to either the Federal Law "On Joint Stock Companies" or the Charter of Federal Grid Company to the competency of the General Meeting of Shareholders. In its operations, the Board of Directors is guided by the Federal Law "On Joint Stock Companies", Russian legislation and internal corporate documents.

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 Charter. The Company's Charter stipulates compulsory membership of representatives of the Market Council, a non-profit organization incorporated as a non-profit partnership unifying electric power industry entities and large electric and thermal energy consumers on a membership basis.

Four independent directors are elected to the Board of Directors to ensure an unbiased decision-making process and to maintain balanced interests for different shareholder groups.

Composition of the Board of Directors acting from 29 June 2011 to 29 June 2012 (positions are indicated as of the election date):

1. Ernesto Ferlenghi - Chairman of the Board of Directors;
2. Andrey Malyshev - Deputy Chairman of the Board of Directors;
3. Boris Ayuev;
4. Oleg Budargin;
5. Alexey Makarov;
6. Kirill Lyovin;
7. Dmitry Ponomarev;
8. Yuri Solovyev – Independent Director;
9. Denis Fedorov;
10. Igor Khvalin – Independent Director;
11. Rashid Sharipov – Independent Director.

Composition of the Board of Directors acting from 29 June 2012

(positions are indicated as of the election date):

Ernesto Ferlenghi

Chairman of the Board of Directors

Born: 1968
Education: in 1994, he graduated the Tor Vergata University of Rome, the Department of Mathematics, Physics and Natural Sciences.

HOLDS THE FOLLOWING POSITIONS:

- Vice President of Eni S.p.A. (Italy);
- Head of the representative office of Eni (Russian Federation and CIS).

Member of the Board of Directors since 2008, and the Chairman of the Board of Directors since 2011.

Holds no shares of the Company.

Oleg Budargin

Born: 1960

Education: in 1982, he graduated cum laude from the Norilsk Industrial Institute, majoring in Industrial and Civil Construction.

Chairman of the Management Board since 2009, and a member of the Board of Directors of Open Joint Stock Company Federal Grid Company of Unified Energy System, since 2010.

Participation share in the Company's share capital: 0.000644%

Share in the Company's ordinary stock: 0.000644%

HOLDS THE FOLLOWING POSITIONS:

- Member of the Supervisory Board, Open Joint Stock Company All-Russian Regional Development Bank;
- Member of the Board of Directors, Open Joint Stock Company Inter RAO UES;
- Member of the Supervisory Board, non-profit partnership Association of Solar Energy Enterprises;
- Chairman of the Board of Directors, Open Joint Stock Company of Energy and Electrification of Kuban;
- Chairman of the Board of Directors, Open Joint Stock Company Moscow Joint Electric Grid Company;
- Chairman of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of Siberia;
- Chairman of the Management Board, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies

Member of the Board of Directors since 2012.

Holds no shares of the Company.

Boris Kovalchuk

Born: 1977

Education: in 1999, he graduated St. Petersburg State University, majoring in Law, and in 2010, he graduated from the Federal State Agency of Additional Professional Education at the Institute of Advanced Training for Executives and Fuel and Energy Specialists, and the non-profit partnership Corporate Educational and Research Center of UES.

HOLDS THE FOLLOWING POSITIONS:

— Chairman of the Management Board, member of the Board of Directors, Open Joint Stock Company Inter RAO UES;

— Chairman of the Board of Directors, Open Joint Stock Company First Generating Company of the Wholesale Electricity Market;

— "Chairman of the Board of Directors, Closed Joint Stock Company Kambarata Hydro Power Plant – 1;

— Member of the Board of Directors, Limited Liability Company InterRAO WorleyParsons;

— Chairman of the Board of Directors, Open Joint Stock Company Mosenergosbyt;

— Member of the Board of Directors, Open Joint Stock Company Petersburg Off-Load Company;

— Member of the Board of Directors, Open Joint Stock Company Federal Hydro-generator Company – RusHydro;

— Member of the Board of Directors, Irkutsk Open Joint Stock Company of Energy and Electrification;

— Chairman of the Board of Directors, Open Joint Stock Company United Energy Trade Company;

— Member of the Management Board, Russian Union of Manufacturers and Entrepreneurs;

— Member of the Management Board, Russian Union of Manufacturers and Entrepreneurs;

— Member of the Board of Directors, Open Joint Stock Company Third Generating Company of the Wholesale Electricity Market;

— Member of the Board of Directors, Open Joint Stock Company Financial Settlements Center;

— Member of the Board of Directors, Open Joint Stock Company All-Russian Regional Development Bank.

Boris Ayuev

Born: 1957

Education: in 1979, he graduated from the Ural Polytechnic Institute, with a major in Electric Power Plants.

HOLDS THE FOLLOWING POSITIONS:

— Chairman of the Management Board, Member of the Board of Directors, Open Joint Stock Company Central Dispatch of the System Operator of Unified Energy System;

— Member of the Board of Directors, Open Joint Stock Company Administrator of the Trading System of the Wholesale Electricity Market;

— Member of the Board of Directors, Joint Stock Company Financial Settlements Center;

— Chairman, non-profit partnership Russian National Committee of CIGRE (International Council on Large High Voltage Electric Systems);

— Member of the Board of Directors, Open Joint Stock Company Federal Hydro-generator Company – RusHydro.

Member of the Company's Board of Directors since 2004

Participation share in the Company's share capital: 0.007158%

Share of the Company's ordinary stock: 0.007158%

Vyacheslav Kravchenko

Independent Director

Born: 1967

Education: in 1995, he graduated from Lomonosov Moscow State University with a degree in Law.

HOLDS THE FOLLOWING POSITIONS:

— Chairman of the Management Board, member of the Supervisory Board, non-profit partnership Council of the Market for the Organization of an Efficient System of Wholesale and Retail Trade of Electric Energy and Power;

— Member of the Board of Directors, Joint Stock Company Financial Settlements Center;

— Chairman of the Board of Directors, Chairman of the Management Board, Open Joint Stock Company Administrator of the Wholesale Electricity Market Trading System;

— Member of the Board of Directors, Open Joint Stock Company Inter RAO UES;

— Member of the Board of Directors, Open Joint Stock Company Holding of Inter-regional Distribution Grid Companies;

— Member of the Board of Directors, Open Joint Stock Company System Operator of Unified Energy System.

Member of the Board of Directors since 2012.

Holds no shares of the Company.

Andrey Malyshev

Member of the Company's Board of Directors since 2008. He also serves as Chairman of the Investment Committee.

Holds no shares in the Company.

Deputy Chairman of the Board of Directors

Born: 1959

Education: in 1982, he graduated from the Moscow Power Engineering University with a degree in heat power automation (as a heat power automation engineer).

HOLDS THE FOLLOWING POSITIONS:

- President, member of the Board of Directors, Open Joint Stock Company GROUP E4;
- Chairman of the Strategy Committee, member of the Board of Directors, Open Joint Stock Company Federal Hydro-generator Company – RusHydro;
- Chairman of the Board of Directors, Closed Joint Stock Company Prepreg – Modern Composite Materials;
- Chairman of the Board of Directors, Limited Liability Company SITRONICS-Nano;
- Deputy Chairman of the Board of Directors, Closed Joint Stock Company TREKPOR TEKHNOLODGI;
- Chairman of the Board of Directors, Limited Liability Company Lithium-ion Technologies;
- Chairman of the Board of Directors, Closed Joint Stock Company Plakart;
- Chairman of the Board of Directors, Limited Liability Company NT-Pharma;
- Member of the Board of Directors, Closed Joint Stock Company Fiber-Optic Systems;
- Chairman of the Board of Directors, Limited Liability Company SinBio;
- Member of the Board of Directors, Closed Joint Stock Company Composite Holding Company;
- Member of the Board of Directors, Closed Joint Stock Company Novomet – Perm;
- Chairman of the Board of Directors, Limited Liability Company Nanoelectro Research-and-Production Enterprise;
- Chairman of the Board of Directors, Limited Liability Company PET-Technology;
- Member of the Board of Directors, Limited Liability Company RosnanoMedInvest;
- Member of the Board of Directors, Limited Liability Company Ecoalliance;
- Member of the Board of Directors, Open Joint Stock Company Ruspolymet.

Vladimir Rashevsky

Independent Director

Born: 1973

Education: in 1995, he graduated from the Finance Academy under the Government of the Russian Federation, and in 1999, he completed a post-graduate course at the Finance Academy under the Government of the Russian Federation, with a Ph.D. in Economics (focused on world economics).

HOLDS THE FOLLOWING POSITIONS:

— General Director, Chairman of the Management Board, member of the Board of Directors, member of the Strategy Committee, Open Joint Stock Company "Siberian Coal Energy Company";

— Chairman of the Management Board, non-profit organization "Fund of Socio-Economic Support of the Regions SUEK-REGIONAM;

— Member of the Management Board, the All-Russian Association of Employers the Russian Union of Manufacturers and Entrepreneurs;

— Member of the Board of Directors, Limited Liability Company Siberian Generating Company.

Member of the Company's Board of Directors since 2012.

Holds no shares in the Company

Elena Titova

Independent Director

Born: 1967

Education: in 1989, she graduated from the Lomonosov Moscow State University, with a degree in Economics, as an economist and a professor of political economy.

HOLDS THE FOLLOWING POSITIONS:

— Member of the Board of Directors, CEO, Chairman of the Management Board, Morgan Stanley Bank LLC;

— President, Open Joint Stock Company All-Russian Regional Development Bank;

— Member of the Board of Directors, Open Joint Stock Company Holding of Inter-regional Distribution Grid Companies.

Member of the Company's Board of Directors since 2012.

Holds no shares in the Company.

Denis Fedorov

Member of the Company's Board of Directors since 2011. He also serves as the Chairman of the HR and Remuneration Committee, and as a member of the Audit Committee.

Holds no shares in the Company.

Born: 1978

Education: in 2001, he graduated from the Bauman Moscow State University, with a degree in Economics Management; in 2003, he completed a post-graduate course at the Moscow Power Engineering Institute, majoring in Economics and the Industrial Energy Sector. He holds a Ph.D. in Economics.

HOLDS THE FOLLOWING POSITIONS:

— Head of the Department, Open Joint Stock Company Gazprom;

— General Director, Limited Liability Company Gazpromenergoholding;

— General Director, member of the Board of Directors, Open Joint Stock Company Tsentrenergokholding;

— Member of the Management Board, Closed Joint Stock Company Fortis Energy;

— Chairman of the Board of Directors, Open Joint Stock Company Second Generating Company of the Wholesale Electricity Market;

— Member of the Board of Directors, Open Joint Stock Company Territorial Generating Company #1;

— Member of the Management Board, Open Joint Stock Company Kaunas Heat-Electric Generating Plant;

— Member of the Board of Directors, Open Joint Stock Company Mosenergo;

— Member of the Management Board, Closed Joint Stock Company Kaunoelectrine;

— Member of the Board of Directors, Open Joint Stock Company Inter RAO UES;

— Member of the Board of Directors, Limited Liability Company Heat Supply Company;

— Chairman of the Board of Directors, Open Joint Stock Company Tyumen Energy Retail Supplier;

— Member of the Management Board, Fund for the Development of Education, Science and Engineering Nadezhda;

— Member of the Board of Directors, Open Joint Stock Company Holding of Inter-regional Distribution Grid Companies.

Rashid Sharipov

Independent Director

Born: 1968

Education: in 1991, he graduated from the Moscow State University of Foreign Affairs, with a degree in international affairs and international law. In 1993, he graduated from the California Western School of Law, with an LL.M degree.

HOLDS THE FOLLOWING POSITIONS:

— Deputy General Director, Limited Liability Company KFK – Consult;

— Member of the Board of Directors, Open Joint Stock Company System Operator of Unified Energy System;

— Member of the Supervisory Board, Open Joint Stock Company All-Russian Regional Development Bank;

— Member of the Board of Directors, Open Joint Stock Company Federal Hydro-generator Company – RusHydro;

— Member of the Fund Board of the non-governmental pension fund Neftegarant.

Member of the Company's Board of Directors since 2008. He also serves as the Chairman of the Audit Committee, and as a member of the HR and Remuneration Committee.

Holds no shares in the Company.

Ilya Scherbovich

Member of the Company's Board of Directors since 2012.

Holds no shares in the Company.

Independent Director

Born: 1974

Education: in 1995, he graduated from the Plekhanov Russian Economic Academy, with a degree in Economics and production management.

HOLDS THE FOLLOWING POSITIONS:

- President, Limited Liability Company United Capital Partners Advisory;
- President, United Capital Partners (UCP) Group of Companies;
- Member of the Board of Directors, Limited Liability Company Uralmash Oil and Gas Equipment Holding;
- Member of the Board of Directors, Open Joint Stock Company Rosneft Oil Company;
- Member of the Board of Directors, Open Joint Stock Company Joint stock oil transportation company Transneft;
- Member of the Board of Directors, United Capital Partners Advisory LLC.

Vladimir Furgalsky

Holds the position of Deputy Chairman of the Management Board, Open Joint Stock Company Federal Grid Company.

Holds no shares in the company.

Secretary of the Board of Directors

Born: 1977

Education: in 2000, he graduated from the St. Petersburg University of Economics and Finance, from 1999 till 2001, he studied at the University of Arkansas (USA) (degree: Master of Business Administration (MBA)).

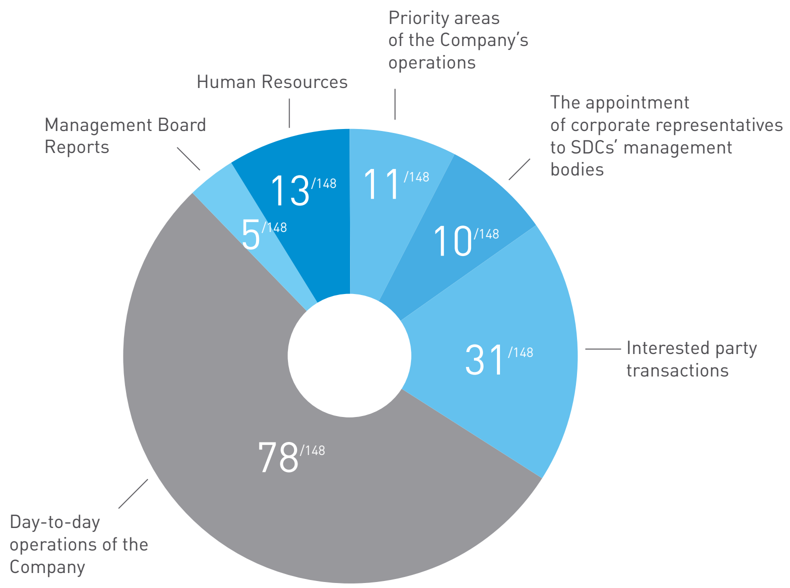
Board of Directors Activities

In 2012, the Board of Directors held 34 meetings, 6 of which were held in the form of joint attendance, and made resolutions on 148 issues. The Board of Directors considered and approved long-term corporate development programs, including:

- The non-core Asset Management Program;
- The Innovative Development Program;
- The Insurance Protection Program;
- The 2012 Cost Management Program and Forecast Activities for 2013-2014;
- Regulations on the Internal Control System;
- Regulations on the Energy Policy;
- Anti-corruption Policy;
- Regulations on the Unified Technical Policy in the Electric Grid Complex of the Russian Federation;
- New Corporate Governance Code;
- Regulations on the Procedures for Procuring Goods, Work and Services for the Needs of JSC Federal Grid Company.

The Board of Directors made the following decisions: on the establishment of a branch of Federal Grid Company (Center of Technical Supervision) and on the adjustment of the 2012 Investment Program of Federal Grid Company.

Structure of Issues Addressed at 2012 Board of Directors Meetings



Committees of the Board of Directors

The Committees' activities aim to boost the performance of the Board of Directors by preliminarily examining the most important issues falling under the competence of the Board of Directors and developing recommendations on such issues.

Four Committees of the Board of Directors operated in 2012:

— The Strategy Committee;
— The Investment Committee;
— The Audit Committee;
— The HR and Remuneration Committee.

The activities of all Committees shall be governed by relevant Provisions on the Committees that define the composition, competence and operational procedures, as well as the rights and obligations of members of the Committees.

The Strategy Committee

The functions of the Committee include addressing and making recommendations to the Board of Directors on issues related to the development of Russia's Unified Energy System.

Composition of the Committee:

1. Vyacheslav Kravchenko
   — Independent Director
   — Chairman of the Committee, member of the Board of Directors of JSC Federal Grid Company;
   — Chairman of the Management Board, member of the Supervisory Board of the Non-Profit Partnership Market Council.
2. Andrey Malyshev
   — Deputy Chairman of the Board of Directors of JSC Federal Grid Company;
   — President, member of the Board of Directors of JSC GROUP E4.
3. Roman Berdnikov
   — First Deputy Chairman of the Management Board of JSC Federal Grid Company.
4. Sergey Vasilyev
   — Director of the Department of Electric Power Industry Development for the Russian Ministry of Energy.
5. Anatoly Dyakov
   — President of the Unified Energy Complex of the Russian Corporation and the Non-Profit Partnership Scientific and Technical Council of UES.
6. Igor Kozhukhovsky
   — General Director of CJSC APBE.
7. Evgeny Miroshnichnko
   — Director of Strategic Development of the Strategy and Investment Alliance of JSC Inter RAO UES.
8. Andrey Naryshkin
   — Deputy Chief of Staff of the Chairman of the Board of Directors of JSC Federal Grid Company.
9. Alexey Sukhov
   — Deputy Chairman of the Management Board of JSC ATS.
10. Alexander Rogov
    — Head of the Energy Sector Development Department at the Energy Sector and Energy Marketing Development Division of JSC Gazprom.
11. Vladimir Fortov
    — Member of the Presidium of the Russian Academy of Sciences (RAS).
12. Igor Khvalin
    — Deputy Strategy Executive Director of JSC Holding of the Inter-regional Distribution Grid Companies.
13. Nikolay Shulginov
    — First Deputy Chairman of the Management Board of JSC SO UES.

The Committee's 2012 Activities

The Strategy Committee held two meetings in the form of joint attendance. The meetings prepared the Committee's work plan, reviewed the issue on subsidiaries and dependent companies, and also gave recommendations to the Board of Directors on activities aimed at increasing the value of JSC Federal Grid Company shares considering a realization of decisions of the Russian Government on the privatization of shares starting from 2012.

The Investment Committee

The Committee is responsible for reviewing and submitting to the Board of Directors recommendations on the Company's investment policy and advising the Board of Directors on any investment risks.

Composition of the Committee:

1. Andrey Malyshev
— Chairman of the Committee;
— Deputy Chairman of the Board of Directors of JSC Federal Grid Company;
— President, member of the Board of Directors of JSC GROUP E4.
2. Alexander Ilyenko
— Director for UES Asset Management of SO UES.
3. Roman Berdnikov
— First Deputy Chairman of the Management Board of JSC Federal Grid Company.
4. Andrey Mourov
— First Deputy Chairman of the Management Board of JSC Federal Grid Company.
5. Valery Goncharov
— Deputy Chairman of the Management Board of JSC Federal Grid Company.
6. Sergey Vasilyev
— Director of the Department of Electric Power Industry Development for the Russian Ministry of Energy.
7. Vyacheslav Kravchenko
— Independent Director
— Member of the Board of Directors of JSC Federal Grid Company;
— Chairman of the Management Board, member of the Supervisory Board of the Non-Profit Partnership Market Council.
8. Ilnar Mirsiyapov
— Member of the Management Board, Head of Strategy and Investment Alliance of JSC Inter RAO UES.
9. Andrey Naryshkin
— Deputy Chief of Staff of the Chairman of the Board of Directors of JSC Federal Grid Company.
10. Alexander Rogov
— Head of the Energy Sector Development Department at the Energy Sector and Energy Marketing Development Division of JSC Gazprom.
11. Sergey Serebrennikov
— Rector of the State Education Institution of Higher Professional Education MPEI (TU).
12. Vladimir Fortov
— Member of the Presidium of the Russian Academy of Sciences (RAS).

The Committee's 2012 Activities

The Investment Committee held 8 meetings, including one in the form of joint attendance. The meetings made recommendations to the Board of Directors, related to the approval of the 2012-2014 investment program, its adjustments and approval of the long-term 2013-2017 investment program.

The Audit Committee

The Committee is responsible for preparing recommendations to the Board of Directors on selecting an independent audit organization and on upgrading the Company's reporting system and internal control.

Composition of the Committee:

1. Rashid Sharipov
— Independent Director
— Chairman of the Committee;
— Member of the Board of Directors of JSC Federal Grid Company;
— Deputy General Director of LLC KFK – Consult.
2. Vladimir Rashevsky
— Independent Director
— Member of the Board of Directors of JSC Federal Grid Company;
— General Director, Chairman of the Management Board of JSC Siberian Coal Energy Company.
3. Elena Titova
— Independent Director
— Member of the Board of Directors of JSC Federal Grid Company;
— President, Chairman of the Management Board of JSC All-Russian Regional Development Bank.
4. Denis Fedorov
— Member of the Board of Directors of JSC Federal Grid Company;
— Head of a Division of JSC Gazprom;
— General Director of LLC Gazpromenergoholding;
— General Director of JSC Tsentrenergoholding.
5. Ilya Scherbovich
— Independent Director;
— Member of the Board of Directors of JSC Federal Grid Company;
— President of LLC United Capital Partners Advisory;
— President of the United Capital Partners (UCP) Group of Companies.

The Committee's 2012 Activities

The Audit Committee held nine meetings, including three in the form of joint attendance. The meetings approved and issued recommendations to the Board of Directors on approving the Regulations on Securing Insurance Protection and the Company's 2013 Insurance Protection Program. The Committee also reviewed the report on the Company's securities transactions by insiders, of the Company and the process for calculating profit tax taken into account while developing the Company's 2012 Business Plan and forecast indices for 2013-2014.

The HR and Remuneration Committee

The HR and Remuneration Committee is in charge of preparing recommendations to the Board of Directors related to remuneration and incentive schemes for the Company's and the Audit Commission's top executives, and for outlining candidate selection criteria for the Company's management bodies.

Composition of the Committee:

1. Denis Fedorov
— Chairman of the Committee;
— Member of the Board of Directors of JSC Federal Grid Company;
— Head of a Division of JSC Gazprom;
— General Director of LLC Gazpromenergoholding;
— General Director of JSC Tsentrenergoholding.
2. Elena Titova
— Independent Director;
— Member of the Board of Directors of JSC Federal Grid Company;
— President, Chairman of the Management Board of JSC All-Russian Regional Development Bank.
3. Ilya Scherbovich
— Independent Director;
— Member of the Board of Directors of JSC Federal Grid Company;
— President of LLC United Capital Partners Advisory;
— President of the United Capital Partners (UCP) Group of Companies.

The Committee's 2012 Activities

The HR and Remuneration Committee held six meetings in the form of joint attendance and made recommendations to the Board of Directors on approving the methodology for calculating and assessing the achievement of key performance indicators (KPIs) by top managers of JSC Federal Grid Company, as well as on the approval of the report on the accomplishments of the Company's KPIs for H1 2012.

Board of Directors' Members Attendance at 2012 Meetings of the Board of Directors and Its Committees

Name of BoD member	The Board of Directors	Audit Committee	Strategy Committee	HR and Remuneration Committee	Investment Committee
Boris Ayuev	97%				
Oleg Budargin	97%				
Boris Kovalchuk	89%				
Vyacheslav Kravchenko	78%				0%
Kirill Lyovin	100%	100%	100%		
Alexey Makarov	81%		100%		100%
Andrey Malyshev	97%				100%
Dmitry Ponomarev	6%		0%		
Vladimir Rashevsky	89%	100%			
Yuri Solovyev	94%		100%		86%
Elena Titova	89%	100%		100%	
Denis Fedorov	91%	100%		100%	
Ernesto Ferlenghi	100%				
Igor Khvalin	88%	100%	100%	100%	86%
Rashid Sharipov	70%	100%		33%	
Ilya Scherbovich	100%	100%		100%	

The Management Board

Day-to-day operations of the Company are managed by the Chairman of the Management Board and by the Management Board, which are accountable to the General Shareholders Meeting and to the Board of Directors. In its own operations, the Management Board is governed by the Federal Law "On Joint Stock Companies", Russian legislation and other internal corporate documents.

The Chairman of the Management Board is the Chief Executive Officer (CEO).

Information on the Management Board's Compositions in 2012

The Management Board composition below is effective from 1 January 2012 till 11 September 2012:

1. Oleg Budargin – Chairman of the Management Board;
2. Roman Berdnikov;
3. Andrey Cherezov;
4. Valery Chistyakov;
5. Dmitry Gourevich;
6. Andrey Kazachenkov;
7. Yuri Mangarov;
8. Samuil Zilberman;
9. Evgeny Zhuykov.

Changes in the Management Board as of 11 September 2012 (Board of Directors' Meeting Minutes #172):

— A Resolution of the Board of Directors terminated the authorities of: Evgeny Zhuykov, Samuil Zilberman and Dmitry Gourevich;

— A Resolution of the Board of Directors appointed: Andrey Mourov (First Deputy Chairman of the Management Board), Sergey Sergeyev (Deputy Chairman of the Management Board), Vladimir Shukshin (Deputy Chairman of the Management Board) and Nikolay Varlamov (Deputy Chairman of the Management Board) as members of the Management Board.

The below Management Board Composition is effective from 11 September 2012 till 20 October 2012:

1. Oleg Budargin – Chairman of the Management Board;
2. Roman Berdnikov;
3. Andrey Cherezov;
4. Valery Chistyakov;
5. Andrey Kazachenkov;
6. Andrey Mourov;
7. Yuri Mangarov;
8. Sergey Sergeyev;
9. Vladimir Shukshin;
10. Nikolay Varlamov.

Changes in the Management Board as of 20 October 2012:

— In accordance with the Russian Federal law "On Joint Stock Companies" and the Charter of JSC Federal Grid Company, due to expiration of the employment contract, the authority of Valery Chistyakov was terminated as of 20 October 2012.

Management Board Composition,

effective from 20 October 2012 onwards

Participation share in the Company's share capital: 0.000644%

Share in the Company's ordinary stock: 0.000644%

Oleg Budargin

Chairman of the Management Board, member of the Board of Directors

Born: 1960

Education: in 1982, he graduated cum laude from the Norilsk Industrial Institute, with a major in Industrial and Civil Construction.

Biographical Background: From 1984 till 1995, he worked at Norilskstroi PSMO (Production Construction and Assembly Association), Promstroi Trust, the General Construction Division of the Norilsk Mining and Metallurgical Complex (NGMK), and he also served as the Deputy General Director of JSC NGMK. From 2000 to 2002, he served as the Mayor of Norilsk. From 2003 till 2006, he served as the Governor of the Taymyr (Dolgano-Nenets) Autonomous District. From 2007 till 2009, he was appointed Assistant Plenipotentiary Representative of the Russian President in the Siberian Federal District. In July 2009, by a resolution of the Board of Directors of JSC Federal Grid Company, he was appointed Acting Chairman of the Management Board, and as of October 2009, he was elected Chairman of the Management Board by an Extraordinary General Meeting of Shareholders.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

— Member of the Supervisory Board, Open Joint Stock Company All-Russian Regional Development Bank;

— Member of the Board of Directors, Open Joint Stock Company Inter RAO UES;

— Member of the Supervisory Board, non-profit partnership Association of the Solar Energy Enterprises;

— Chairman of the Board of Directors, Open Joint Stock Company of Energy and Electrification of Kuban;

— Chairman of the Board of Directors, Open Joint Stock Company Moscow Joint Electric Grid Company;

— Chairman of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of Siberia;

— Chairman of the Management Board, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies.

Participation interest in the Company's share capital: 0.0000001957%

Share in the Company's ordinary stock: 0.0000001957%

Roman Berdnikov

First Deputy Chairman of the Management Board

Born: 1973

Education: in 1998, he graduated from the Moscow Power Engineering Institute, with a major in electric power plants.

Biographical Background: He started his working career at JSC Mosenergo, then worked at JSC SO CDU UES of Russia. From 1999 to 2002, he worked at RAO UES of Russia. He joined Federal Grid Company in 2002. In 2009, he was elected as a Member of the Management Board, and since 2010, he has served as the Deputy Chairman of the Management Board. In October 2012, he was appointed First Deputy Chairman of the Management Board.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

— Chairman of the Supervisory Board, Joint Stock Company United Energy System GruzRosenergo;

— Member of the Supervisory Board, Non-Profit Partnership The Market Council for the Efficient System of Wholesale and Retail Trade;

— Member of the Board of Directors, Closed Joint Stock Company EnergoRynok (Energo Market);

— Member of the Board of Directors, Open Joint Stock Company Tyumenenergo;

— Member of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of the North Caucasus;

— Member of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of the Urals;

— Member of the Management Board, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies.

Andrey Kazachenkov

First Deputy Chairman of the Management Board

Born: 1980

Education: He graduated cum laude from the St. Petersburg State Engineering and Economic University, majoring in engineering plant economics and management. He also received an MBA from the University of Wisconsin (Madison, USA), and completed courses for numerous specialized programs in Economics and Finance at the business schools at IMD (Switzerland) and INSEAD (France).

Biographical Background: He started his career in 2004 at JSC Lenergo, in 2005, he worked at JSC OGK -1. He has been at Federal Grid Company since 2009, holding the position of Deputy Chairman of the Management Board, he was elected as a member of the Management Board in 2010, and as of May 2012, he was appointed First Deputy Chairman of the Management Board.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

- Member of the Fund Board, Non-government Pension Fund for Power Engineering (non-profit organization);
- Member of the Board of Directors, Open Joint Stock Company Realty EC UES;
- Member of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of the Center;
- Member of the Board of Directors, Open Joint Stock Company of Energy and Electrification Lenenergo.

Participation interest in the Company's share capital: 0.0000005524%

Share in the Company's ordinary stock: 0.0000005524%

Andrey Mourov

First Deputy Chairman of the Management Board

Born: 1970

Education: In 1993, he graduated from the Legal Department of St. Petersburg State University, majoring in Jurisprudence. In 1998, he participated in a specialized re-training course in Financial Management at the Inter-disciplinary Institute of Professional Development and Refresher Courses for Executives; and, in 2009, he graduated from the State University of Civil Aviation, majoring in Freight Regulation and Air Transport Management, holding a Ph.D. in Economics.

Biographical Background: He worked at the St. Petersburg City Bar Association, then at JSC ICN October. From 2000 to 2004, he worked in the telecommunications and construction industries. From 2004 to 2012, he held executive positions at the Federal State Unitary Enterprise Pulkovo Airport and at JSC Pulkovo Airport. In 2012, he moved from JSC Holding of the Inter-regional Distribution Grid Companies to Federal Grid Company. In June 2012, he was appointed First Deputy Chairman of the Management Board, and in September 2012, he was elected as a member of the Company's Management Board. He also currently holds the post of Executive Director of JSC Holding of the Inter-regional Distribution Grid Companies.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

- Executive Director, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies;
- Chairman of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of Volga;
- Chairman of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of the Center;
- Member of the Board of Directors, Open Joint Stock Company of Energy and Electrification of Kuban;
- Chairman of the Board of Directors, Open Joint Stock Company of Energy and Electrification Lenenergo;
- Member of the Board of Directors, Open Joint Stock Company Moscow Unified Electric Grid Company;
- Chairman of the Board of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of the North-West;
- Member of the Management Board, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies.

Holds no shares in the Company.

Holds no shares in the Company.

Nikolay Varlamov

Deputy Chairman of the Management Board

Born: 1974

Education: In 1996, he graduated from the Asia and Africa Institute of the Lomonosov Moscow State University, and in 2000, he graduated from the Finance Academy under the Government of the Russian Federation with a master's degree in Economics.

Biographical Background: He started his career at the Central Bank of the Russian Federation; and, in 2002, he moved to the Financial Monitoring Committee of the Russian Federation (subsequently – The Federal Financial Monitoring Service). From 2007 to 2008, he worked as an assistant to the Prime Minister of the Government of the Russian Federation. In 2008, he was appointed Secretary of State as Deputy Head of the Federal Financial Monitoring Service. Since 2011, he has worked in Federal Grid Company, as the Deputy Chairman of the Management Board. In September 2012, he was elected as a member of the Company's Management Board.

Does not hold positions in other organizations.

Holds no shares in the Company.

Yuri Mangarov

Deputy Chairman of the Management Board – Chief of Staff

Born: 1956

Education: In 1978, he graduated from the Plekhanov Moscow Institute of the National Economy, majoring in Economic Cybernetics.

Biographical Background: He worked in the mining and metallurgical industry for 26 years. In 2009, he joined Federal Grid Company, as the Deputy Head of Financial Control and Internal Audit. In October 2009, he was appointed Director for Internal Control and Auditing Activities, and in March 2010, he became the Deputy Chairman of the Company's Management Board. In September 2010, he was elected as a member of the Company's Management Board. From June 2012, he has served as the Deputy Chairman of the Management Board – the Chief of Staff.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

- Member of the Board of Directors, Open Joint Stock Company Tyumenenergo;
- Member of the Board of Directors, Open Joint Stock Company of Energy and Electrification Yantarenergo;
- Deputy Executive Director – Chief of Staff, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies.

Valery Sedunov

General Director, JSC Federal Grid Company subsidiary – MES Center (Transmission Grid of The Center), member of the Management Board

Born: 1950

Education: In 1972, he graduated from the Ivanovo Energy Institute, with a degree in the Automation of Electric Energy Production and Distribution.

Biographical Background: He has worked in the electric energy industry since 1972, first at the Volga substation of the Division for the Operation of Distant Electric Energy Transmission, then, he continued at MES Center, where he went from engineer to General Director. In December 2012, he was elected as a member of the Management Board.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

— Member of the Board of Directors, Open Joint Stock Company IDGC of the Center;

— Member of the Board of Directors, Open Joint Stock Company IDCG of the Center and Volga Regions;

— Member of the Board of Directors, Open Joint Stock Company MOESK.

Participation interest in the Company's share capital: 0.0000274868%

Share in the Company's ordinary stock: 0.0000274868%

Sergey Sergeyev

Deputy Chairman of the Management Board

Born: 1976

Education: In 1998, he graduated cum laude from the Novocherkassk State Technical University, majoring in Industrial and Civil Construction.

Biographical Background: He started his career in 1998 at LLC Soyuzstroy in Rostov-on-Don. Since 2000, he has worked in enterprises within OJSC Transneft Inc. Since 2009, he has worked at Federal Grid Company. In 2010, he was appointed Deputy Chairman of the Management Board. Since April 2012, he has worked as the General Director of JSC "Engineering and Construction Management Center of the Unified Energy System". In September 2012, he was elected as a member of the Company's Management Board.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS

— General Director, member of the Boards of Directors, Open Joint Stock Company Engineering and Construction Management Center of the Unified Energy System;

— Member of the Board of Directors, Open Joint Stock Company Energostroysnabcomplect UES.

Holds no shares in the Company.

Holds no shares in the Company.

Andrey Cherezov

Chairman of the Management Board, Chief Engineer

Born: 1967

Education: In 1993, he graduated from Altay State Technical University, majoring in Power Supply. He completed the executive training program for Russian national economy enterprises for professional administration in economics and corporate management.

Biographical Background: He has worked in the electric energy industry for more than 18 years. He has held executive positions at Federal Grid Company's subsidiaries, and has also worked as the Company's Deputy Chief Engineer. In 2011, he was appointed Deputy Chairman of the Management Board and Chief Engineer and was elected as a member of the Management Board.

HOLDS THE FOLLOWING POSITIONS:

— Member of the Board, Non-profit Partnership to Aid the Development of the Quality and Safety of Construction Work, Self-Regulatory Organization Inzhspetsstroy – Electrosetstroy.

Holds no shares in the Company.

Vladimir Shukshin

Deputy Chairman of the Management Board

Born: 1959

Education: In 1991, he graduated from the State Central Institute of Physical Training, and in 1999, he graduated from the Russian Academy of the Federal Security Service. In 2003, he graduated from the Russian Academy of Government Services under the President of the Russian Federation, with a Ph.D. in Politics.

Biographical Background: He served in the Soviet Armed Forces, working within security and law enforcement agencies. He has also worked in the Moscow Mayor's Office. In 2012, he worked as the Deputy General Director for Security at OJSC Holding of the Inter-regional Distribution Grid Companies. Since June 2012, he has worked as the Deputy Chairman of the Management Board at Federal Grid Company, in September 2012, he was elected as a member of the Company's Management Board. This is in addition to the job of Deputy Executive Director for Security at OJSC Holding of the Inter-regional Distribution Grid Companies.

HOLDS THE FOLLOWING POSITIONS IN OTHER ORGANIZATIONS:

— Chairman of the Boards of Directors, Open Joint Stock Company Inter-regional Distribution Grid Company of the North Caucasus;

— Deputy Executive Director for Security, Open Joint Stock Company Holding of the Inter-regional Distribution Grid Companies.

Information on transactions with the Company's shares as carried out by members of management bodies in 2012

Name of the member of the Company's Management Bodies	Transaction Date	Number of Shares Covered by a Transaction	Change in Shares After a Transaction
Oleg Budargin Chairman of the Management Board, Member of the Board of Directors	25.05.2012	5,210,000	0.0000008278%
Andrey Kazachenkov Member of the Management Board, First Deputy Chairman of the Management Board	28.05.2012	4,100,000	0.0010008132%

Management Bodies' Remuneration

The Company does not offer remuneration to persons in respect to whom Russian legislation restricts or prohibits the receipt of any payments from commercial organizations.

The Board of Directors

The payment of remuneration to members of the Board of Directors is based on Regulations on Remuneration and Compensation Payments to members of the Board of Directors of JSC Federal Grid Company, as approved by the Annual General Meeting of Shareholders on 29 June 2012 (Meeting Minutes #12 as of 7 July 2012).

The amount of remuneration to each member of the Board of Directors for his/her contribution to the operations of the Board of Directors is calculated given the total number of Board of Directors meetings held during the previous corporate year, the number of Board of Directors meetings attended by the member and corporate revenues for the respective fiscal year.

Remuneration for the Chairman of the Board of Directors is increased 30%. Compensation for expenses to members of the Board of Directors is not provided. Allowances are also set for members of the Board for their work in Committees: the Chairman of the Committee receives a 20% bonus, and a Committee member receives 10%.

The total remuneration for each member of the Board of Directors, given all premiums, cannot exceed RUR900 thousand.

Since the Company incurred a loss for the 2012 fiscal year, in accordance with the Regulation, a decision was made not to pay remuneration to the Board of Directors.

Committees of the Board of Directors

The payment of remuneration to members of the Committees of the Board of Directors is based on a separate Regulation on remuneration to members of the Committees of the Board of Directors of JSC Federal Grid Company, as approved by a decision of the Board of Directors on 16 December 2010 (Meeting Minutes #120).

The Regulation does not apply to members of the Committee(s) who are members of the Board of Directors, or members of the executive body and/or the sole executive body of the Company (CEO).

On a quarterly basis, Committee members shall be paid remuneration for each time that they participate in a meeting. The amount of remuneration is equal to three minimum monthly wage rates for a first category worker. Remuneration to the Chairman of the Committee increases 50%.

The Management Board

According to Regulations on Employment Agreements and Compensation and Remuneration to Top Executives of JSC Federal Grid Company, approved by the Board of Directors on 17 June 2010 (Minutes #105), the monthly payroll for the Company's top executives is set by their employment agreements. This remuneration is based on a fixed rate (salary) and a variable rate (bonus). The bonus depends on the top executives meeting key performance indicators (KPIs). The target KPIs and the methods for calculating and assessing their performance are subject to annual approval by the Company's Board of Directors. In 2012, the following KPIs were applied to these individuals:

Semi-annual KPIs:

- Relative number of restrictions on electricity transmission services (in %);
- 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.

Details on 2012 remuneration, benefits and expenses that members of the Management Board, including the Chief Executive Officer (CEO), received as compensation (RUR thousand):

Remuneration for contributions to the Management Board's operations	0
Salary	145,299
Bonuses	173,461
Commissions	0
Benefits	0
Other types of remuneration	22,444
TOTAL	**341,204**

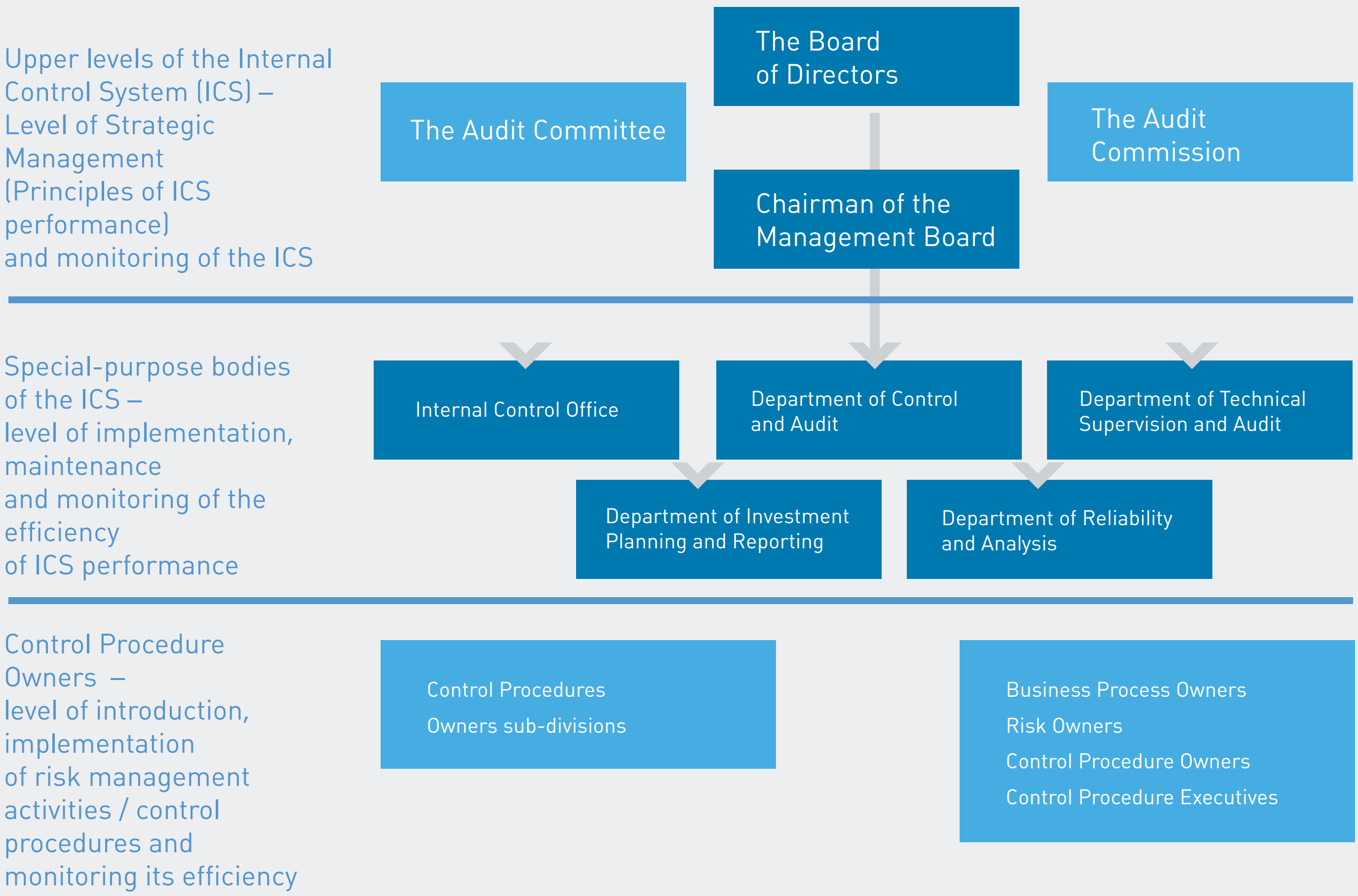
Details on 2012 remuneration, benefits and expenses paid to the Chief Executive Officer (CEO) (RUR thousand):

Remuneration for contributions to the Management Board's operations	0
Salary	17,022
Bonuses	26,502
Commissions	0
Benefits	0
Other types of remuneration	61
TOTAL	**43,585**

The Internal Control System

The Company's internal control system is focused on detecting and mitigating the risk of events that may adversely affect the Company's ability to achieve set objectives and which will lead to losses; at safeguarding assets and efficiently utilizing resources; and at ensuring compliance with Russian legislation, the decisions of the management bodies and internal corporate documents.

The Internal Control System Chart



The Audit Commission

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

The Audit Commission's terms of competence cover:
— Confirming the credibility of statistics in the annual report, the accounting balance sheet and the Company's profit and loss statement;
— Analyzing the Company's financial status, identifying reserves to upgrade the financial position and elaborating on recommendations for management bodies;
— Verifying (audits) of the Company's financial and business operations.

The current composition of the Audit Commission, elected at the annual General Meeting of Shareholders on 29 June 2012 (the positions are indicated as of the election date):

1. Anna Drokova

Deputy Head of the Department of fuel-and-energy and coal industry enterprises of the Federal Agency on State Property Management;

2. Andrey Kolyada

Head of the Department of fuel-and-energy and coal industry enterprises at the Division of Infrastructure Sectors and military-industrial enterprises of the Federal Agency on State Property Management;

3. Victor Lebedev

Assistant to the Deputy Prime Minister of the Government of the Russian Federation;

4. Vladimir Raspopov

Chairman of the Commission;

Deputy Head of a Division of the Federal Agency on State Property Management;

5. Maria Tikhonova

Member of the Board of Directors in numerous companies.

Audit Commission members hold no shares in the Company.

Auditor

To conduct the compulsory audit of the Company's accounting statements, the General Meeting of Shareholders approves the Auditor.

The Annual General Meeting of the Shareholders on 29 June 2012 approved the candidacy of LLC "RSM Top-Audit", as suggested by the Board of Directors. The Auditor is a full member of RSM International (RSM) and a member of the self-regulatory organization of auditors, the Non-Profit Partnership "Russian Chamber of Auditors".

The selection of the Auditor was made among organizations licensed to conduct a general audit, which are not connected with the Company via property interests, and which are non-affiliated with the Company and/or with its affiliates, and was based on a tender procedure, which took into account the Auditor's professional competence and the service cost.

Moreover, according to the terms of the dealer agreement in respect to the bond issue program concluded by JSC Federal Grid Company and Federal Grid Finance Limited, one of the following companies – PriceWaterhouseCoopers, Ernst & Young, Deloitte, KPMG – or one of its affiliates shall be appointed as an auditor for Federal Grid Company's IFRS consolidated financial statements.

According to this requirement, PriceWaterhouseCoopers CJSC was appointed as the auditor for Federal Grid Company's consolidated financial statements for 2012, which were prepared in compliance with IFRS (as adopted in the EU).

The Company's Internal Control Units

In 2012, the Company passed a new edition of Regulations on the Internal Control System and approved a draft of the Strategy (Concept) of Internal Control System Improvement, which will be implemented in 2013-2014. In addition, the Company paid attention to the development of the Internal Control System in subsidiaries and dependent companies (SDCs), where a process of upgrading risk management, internal control and audits has been started.

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.

Within the framework of the Internal Control Systems, the following types of control are carried out:

Preliminary (Preventive) Control

The prevention of ineffective (unreasonable) and illegal activities is performed by Special-Purpose Control Bodies and Structural Units of the Company in a process of optimizing and regulating business processes, and by the Internal Control Office and Structural Units of the Company through risk detection and assessment.

Current Control

The timely detection and immediate removal of shortcomings is performed by Special-Purpose Control Bodies and Structural Units of the Company, by fulfilling control functions within the framework of their key responsibilities.

Follow-up Control

The detection of shortcomings and violations in terms of the Company's financial, economic and production operations is performed by the Department of Control and Audit, the Department of Technical Supervision and the Audit Committee.

Internal Control System development is performed by the following sub-divisions:

- The Internal Control Commission;
- The Internal Control Office;
- The Reliability and Analysis Unit of the Production Control Department;
- The Department of Technical Supervision and Audit;
- The Department of Investment Planning and Reporting;

In addition, in the Company, an Internal Control Commission operates – this is a collegial body whose task is to review materials and audit results carried out by supervisory departments of the Company and external control (supervision) authorities, and to develop a coordinated position and proposals to eliminate violations and identify shortcomings.

During 2012, specialized internal control agencies conducted 120 inspections.

AUDITED ENTITIES

- The Company's Executive Office's divisions
- The Company's branches
- The Company's subsidiary and dependent companies
- JSC IDGC Holding and its SDC (as a part of execution of functions of the sole executive body of JSC IDGC Holding

AUDIT TYPES

- Internal audit of business processes
- Audit of financial and operating activities
- Technical audit (complex and target audits)
- 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 results of control measures, corrective actions have been developed and are being implemented to address revealed shortcomings and their resulting consequences, and to improve the reliability and failure-free operation of the UNEG, as well as to implement preventive measures to reduce the risk of inefficiency for Federal Grid Company.

Remuneration to Members of the Control Units

The Audit Commission

The General Meeting of Shareholders approved the Regulations on the payment of remuneration and compensation to members of the Audit Commission of JSC Federal Grid Company (Meeting Minutes # 5 as of 4 July 2008). The above-mentioned Regulations do not provide for compulsory payments to members of the Audit Commission. In 2012, remuneration was not paid to members of the Audit Commission.

The Auditor

To audit the Company's accounting statements (based on Russian Accounting Standards (RAS)), the Auditor's 2012 fee is approved by the Board of Directors in an amount not to exceed RUR25 Million, including VAT.

Anti-Corruption Activities

To maintain the reputation of Federal Grid Company as a company that seeks to continually improve its anti-corruption policies and to adhere to best international practices to prevent and fight corruption, within the Company, a need to create Compliance emerged.

The compliance system is designed to diagnose problems at an early stage, preventing the possibility of corruption cases. The development and implementation of the compliance system is carried out by a specially established unit, the Department of the Implementation of Corporate and Anti-Corruption Compliance Procedures, which reports directly to the Company's Chairman of the Management Board.

In 2012, apart from changes in the organizational structure, there were changes in the Company's regulatory framework which regulates anti-corruption activities.

Thus, the Board of Directors approved the Company's Anti-Corruption Policy (Minutes #171 dated 24.08.2012), which is the first most important and fundamental document in the field of combating corruption, and defining main objectives, principles and areas of anti-corruption activities.

The Anti-Corruption Policy's tasks include: forming a uniform understanding of the Company's position on the rejection of corruption, minimizing the risk of employee involvement in corrupt activities, and generating corporate anti-corruption awareness, as well as creating a legal mechanism that prevents bribery of Anti-Corruption Policy entities.

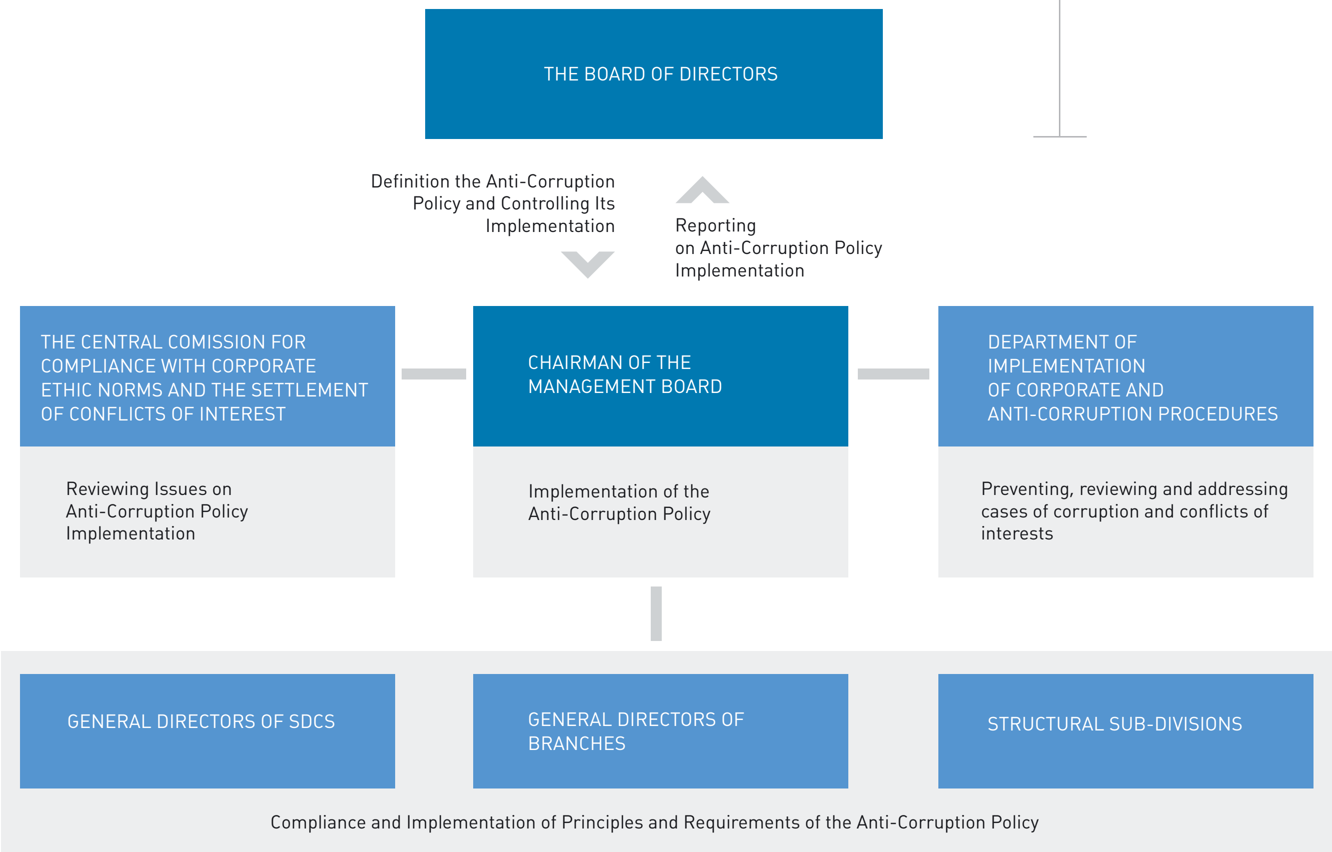
To achieve the goals, objectives and principles that are stated in the Company's Anti-Corruption policy, the Company developed an integrated system for its implementation - the 2012-2014 Program for Fighting Corruption and Settling Conflicts of Interest, which is the second most important legal document in the Federal Grid Company and which was approved by the Company's Board (Minutes #1105 of 05.10.2012).

The third most important document in the field of combating corruption is the Company's Program Implementation Plan for the corresponding year, which is approved by the Chairman of the Board and which contains instructions for anti-corruption measures for the current year to be performed by various Anti-Corruption Policy entities.

The text of the Anti-Corruption Policy and a list of the regulatory framework in the field of fighting corruption can be found in a special section of the Company's official website.

In addition, we have changed the management system for anti-corruption activities, which is based on the following hierarchy and includes:

The Company's Anti-Corruption Activities Management Chart



The Company's Anti-Corruption Policy

We are constantly making efforts to prevent corruption. So, in order to exclude the possibility of including in the documents provisions that contribute to corrupt practices on the part of the Company's employees, and create conditions for their formal legality, the Department employees conduct an anti-corruption survey of organizational and administrative documents (OADs) and their drafts.

In 2012, there was a positive trend to reduce the inclusion of corruption factors in OAD drafts. The trend may be indicative of a change in and the formation of anti-corruption awareness among OAD originators.

To prevent the misuse of funds and corruption in the procurement of goods and services for the needs of the Company, Department employees are carrying out anti-corruption control over procurement.

Anti-corruption control over procurement made it possible to reveal violations connected to illegal recovery from the Company of large monetary funds presented for payment by owners of land plots, on which Federal Grid Company's power facilities were being constructed, and abuse on the part of the officials responsible for making decisions on land and legal activities. Our engagement and the work of legal enforcement agencies solved this problem by creating the Inter-agency Working Group under the Prosecutor General of the Russian Federation, the work of which has resulted in initiating criminal prosecutions against abuse of office, fraud, abuse of authority, forgery, the manufacture or sale of counterfeit documents, State awards, stamps, seals, and forms.

In addition, a positive result was the ability to remove administrative barriers in the registration of rights for land plots used for the construction of UNEG facilities. The economic effect of the measures to perform anti-corruption control in procurement activities amounted to RUR116.9 million.

Interacting with our contractors was one of the key areas of the 2012 Anti-Corruption Policy.

To perform orders from the Minutes of the Government Commission on the development of the electricity industry and instructions of the Prime Minister of the Government of the Russian Federation on the transparency of financial and economic activity, including the prevention of conflicts of interest among managers, we have organized the collection and analysis of information from our counter-parties across the whole chain of their owners (including end beneficiaries).

In addition to the collection, consolidation and monthly transfer of information about counter-parties' owners to the competent authorities, the Department of the Corporate and Anti-Corruption Compliance Procedures analyzes this information, as well as reviews and settles contract supervisors' complaints, should the counter-party refuse to disclose information. In order to regulate this work, the Department employees made out a draft internal document that establishes the procedure for such information to be collected, verified, analyzed, evaluated and transferred to the competent authorities. An automated system, "Accounting for Federal Grid Company counter-parties' beneficiaries", has been created to summarize, analyze, and verify information on counter-parties' owners.

We seek to build business relationships with the counter-parties that support the Anti-Corruption Policy and do their business in an open and honest way, without resorting to corrupt practices. In this regard, we have developed an Anti-Corruption Clause, which is included in all contracts entered into by the Company with legal entities and State and municipal authorities, with the exception of technical connection contracts.

As part of developing the Anti-Corruption Policy's area of managing conflicts of interest, aimed at excluding the possibility of Company's employees, their families and close relatives obtaining material and (or) personal gain through abuse(s) of office, we have formed the Central Compliance Commission for Corporate Ethics and the Settlement of Conflicts of Interest of Federal Grid Company and JSC IDGC Holding. In addition, we approved the document that reveals the concept of conflict(s) of interest, scope of their occurrence and a procedure for settling pre-conflict situations and identifying conflicts of interest.

To prevent corruption, for legal education and the foundation of law-abiding behavior of the Company's employees, we conduct awareness-raising activities, particularly training seminars, training, and consultations with the Company's employees, as well as participating in international forums, summits, conferences, and round tables devoted to fighting corruption. Such events contribute to a common understanding of anti-corruption policy, and also form a positive reputation for the Company in the anti-corruption field.

More information on the implementation of the Company's Anti-Corruption Policy can be found on the corporate website.

Share Capital

63019332937

RUBLES, SHARE CAPITAL OF FEDERAL GRID COMPANY AS OF 31 DECEMBER 2012

Federal Grid Company of Unified Energy System

Share Capital

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 per share.

In November 2012, the Board of Directors decided to increase the Company's share capital by issuing additional ordinary registered shares for a total of RUR4,082,034,991.5 via public subscription. In December 2012, the additional issue was registered by the Russian FFMS under No. 1-01-65018-D-104D. The Company provided its shareholders with the pre-emptive right to acquire shares of the additional issue. The major part of the additional issue was paid for from federal budgetary funds.

On 11 March 2013, placement of an additional issue of ordinary shares at a price of RUR0.50 per share was completed. In total, during the additional issue, 6,754,357,256 shares were placed, which represents 82.7% of the total number of securities of the additional issue to be placed. As a result of the placement, the Company received funds in the amount of RUR3,377.2 million.

The Russian Federation, which bought shares amounting to RUR 3.247 billion, was the main participant in the issue. In addition, an electrical grid facility included in the Register of UNEG facilities and located within the common ownership of the Khabarovsk Territory and the Komsomolsky Municipal District of the Khabarovsk Territory, with a value of RUR126.8 million, was given in return for shares of the Company's additional issue. The remainder of the outstanding shares, in the amount of RUR3.1 million, was acquired by minority shareholders.

Information about the share capital history is presented on the Company's website: http://www.fsk-ees.ru/shareholders_and_investors/information_on_shares/history_of_share_capital/

The number of authorized shares is 86,419,165,091 ordinary registered shares with a nominal value of RUR0.50 per share, worth a total of RUR43,209,582,545.5, at their nominal value. Authorized ordinary shares have the same rights as issued ordinary shares.

No preferred shares were placed.

Share capital structure

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.

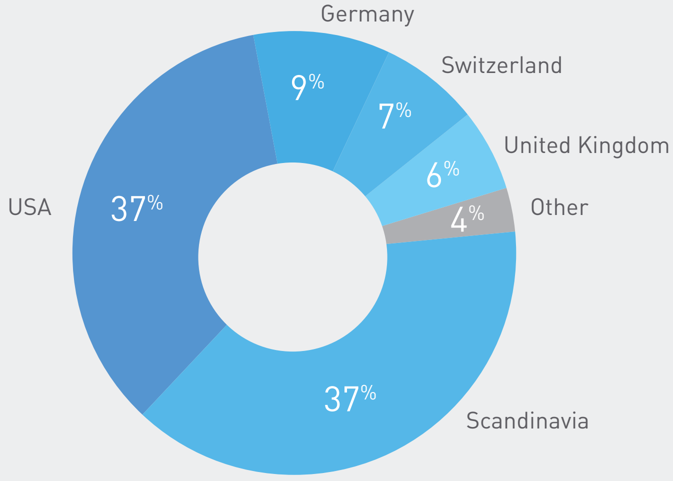
For the purpose of improving interactions with shareholders, the Company analyzed the list of its shareholders, identifying key shareholder groups, holders of ordinary shares and depository receipts. The Company's free float stood at 20.45%. The main minority shareholders of the Company are institutional 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 (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), the East Capital Russian Fund (USD 1.5 billion), Swedbank Robur (USD 1.2 billion), and BlackRock funds.

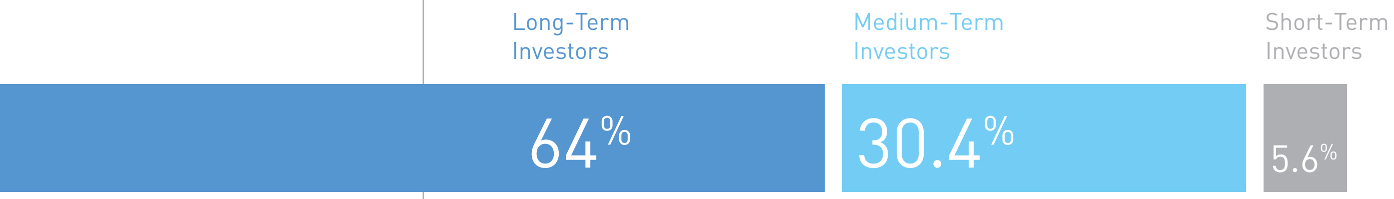
Investor Breakdown by Geography



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, and holdings that (on average) exceed two years.

Investor Breakdown by Investment Horizons



Stock market

Federal Grid Company shares trade on the "B" quotation list of the MICEX Russian Stock Exchange, which is a member of JSC Moscow Stock Exchange Group. The fundamental appeal of the Company's stock is underpinned by its inclusion in both Russian and foreign indices.

Federal Grid Company's Share Weighting in Key Stock Indices, % (as of 31.12.2012)

Index	2012	2011	2010
MSCI Russia	0.816	1.41	1.48
MSCI Emerging Markets	0.049	0.09	0.045
MICEX	1.11	1.54	1.51
MicexPWR	14.16	14.41	14.33
Micex10	8.53	-	-
RTSI	1.11	1.56	1.66
Russian Traded Index (Vienna Stock Exchange)	1.34	2.35	-
The RTX Energy (Vienna Stock Exchange)	23.17	24.30	-

Company's Share Highlights

Share category Ordinary registered non-documentary shares	Nominal value RUR 0.50	MICEX ticker symbol FEES
LSE ticker symbol FEES	ISIN RU000A0JPNN9	Bloomberg code FEES RM

2012 Share Performance

Global equity markets closed higher in 2012, with MSCI World, a developed market index, up 13.2% and MSCI EM, which looks at emerging economies, gaining 15.1%. The key upside market factor was that the world's largest Central Banks adopted an active policy, aimed at stimulating the global economy. In particular, the ECB and the People's Bank of China cut interest rates, the U.S. Federal Reserve launched a new quantitative easing program, the ECB announced the unlimited redemption of Euro-zone countries' government bonds, and the Central Banks of England and Japan expanded their asset re-purchase programs.

Resolving the Greek problem has also positively influenced market dynamics - the second tranche of aid to Greece and domestic government reforms removed the threat of Greece being removed from the Euro-zone, the consequences of which experts compared to the Lehman Brothers' collapse that triggered the previous global financial crisis.

The Russian market grew 5.2% on the basis of the MICEX index, which is far below the growth rate of the MSCI World and MSCI EM indices. The market faced pressure from weak oil prices which at year end rose 3.5%, as well as from the deterioration of Russian economic prospects.

Electricity sector equities were major under-performers; the 2012 MicexPWR industry index decreased 16.8%. The indicator's decline, which was large compared with the market, was due to continued regulatory pressure and uncertain prospects within the sector.

Electricity sector, Federal Grid Company's shares

Federal Grid Company's share prices were subject to fluctuations during the year due to continued regulator uncertainty and the year ended with a substantial decline in the share price, 28.5%. In the beginning of the year, the Company's stock dynamics looked much better than the MICEXPWR index, as the Company showed a strong trend with financial indicators, as well as due to the fact that its share in final energy tariffs was minimal. Negative dynamics in April-May 2012 were the result of news flow on the establishment of the National Electrical Grid Company and the participation of Rosneftegaz in unifying grid assets, as well as the decision to place the Company in the list of strategic companies.

Further volatile dynamics for the Company's stock price could be attributed to reduced risks of grid company consolidation on the basis of Rosneftegaz and continued uncertainty surrounding the final scenario for the merger between Federal Grid Company and IDGC Holding till mid-November, when the Russian President signed an order to establish JSC Russian Grids, which resulted in a partial recovery of the Company's stock quotation. In late December, the discussion of delay in privatization process affected quotation of the Company's shares.

As of 28 December 2012, Federal Grid Company's share price on the Stock Exchange stood at RUR0.20104, which is 19% below analyst consensus, pointing to further upside potential for the Company's shares.

Federal Grid Company Share Performance

		2012	2011	2010
Volume	units	619,919,120,000	476,111,513,800	307,017,566,700
	RUR	147,513,331,183	159,370,754,044	105,717,431,921
Number of deals	units	2,698,318	2,043,606	1,137,379

Source: JSC Moscow Stock Exchange (http://rts.micex.ru/)

Key Parameters of Federal Grid Company Share Trading

		2012	2011	2010
Low	RUR	0.1513	0.21111	0.282
High	RUR	0.3768	0.481	0.389
Period end	RUR	0.20104	0.2811	0.369
Number of shares	million shares	1,260,387	1,255,948	1,233,561
Capitalization at year end	RUR, million	253,904.89	351,163.1	452,717.01

Source: JSC Moscow Stock Exchange (http://rts.micex.ru/)

Detailed information on trading in the Company's shares and depository receipts is available on its web site in Investors / Share Information / Performance Chart

Global Depository Receipt (GDR) Program

On 30 June 2008, the Company launched a Global Depository Receipt (GDR) Program, which was not listed under Regulation S and Rule 144A. The Program's depository bank is Deutsche Bank.

Information about trading in the Company's depository receipts is available on its web site in Investors/Share Information/Global Depository Receipts at http://www.fsk-ees.ru/shareholders_and_investors/information_on_shares/global_depository_receipts/.

Updates about the GDR program are also available on the LSE web site at www.londonstockexchange.com under Federal Grid Company's ticker symbol: FEES.

In 2011, the Company successfully completed a technical listing procedure on the Main Market of the London Stock Exchange (LSE), which began trading Federal Grid Company GDRs on 28 March.

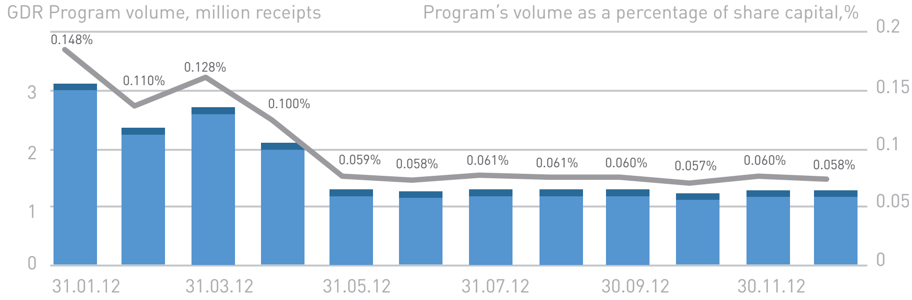
As of 31 December 2012, the GDR Program had 1.4 million depository receipts, representing 0.058% of the Company's share capital. The maximum number of GDRs that the Company is allowed to issue is 2,511,896,256.

GDR Program Highlights

	Regulation S	Rule 144A
CRatio	1 GDR: 500 shares	1 GDR: 500 shares
International code	ISIN: US3133542015	ISIN: US3133541025
	Common Code: 036273577	Common Code: 0362733372
Price per GDR at year end	USD 3.009	-
Number of GDRs as of 31 December 2012	1,369,120	97,330

GDR Program as a Percentage of the Company's Share Capital

Program's volume as a percentage of share capital,%
144A
RegS



GDR Price and Trading Volume, LSE

DR Trading Volume, receipts
DR Price on the LSE, USD
Adjusted posted DR price at the end of trading on MICEX

Dividend policy

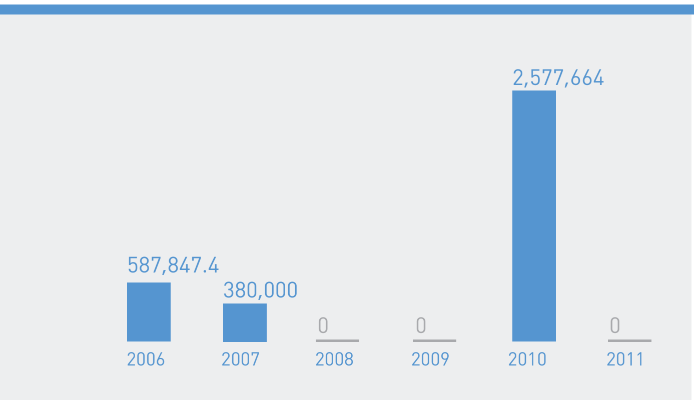
The Company's dividend policy is determined by the Regulations on Dividend Policy, which were approved by the Company's Board of Directors on 16 December 2010. In accordance with the Regulations, the minimum payout rate is set at 10% of net profit under RAS (after compulsory deductions to the reserve fund), adjusted for the amount of profit from the revaluation of financial investments, the recovery of bad debt provisions and non-recurring income from the sale of securities and other assets to finance the investment program.

The General Meeting of Shareholders makes decisions on paying dividends based on recommendations of the Company's Board of Directors.

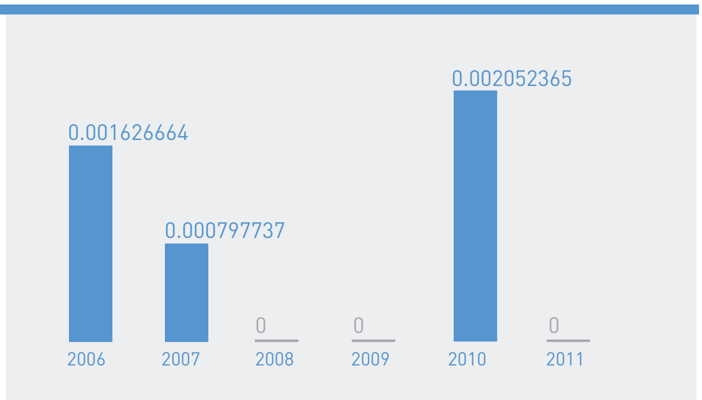
Dividends are determined based on financial results, balancing the interests of the Company and its shareholders.

The Company's Dividend History

Accrued dividends, RUR thousand



Dividends per ordinary share, RUR



2012 Dividends

In accordance with Clause 2 of Article 42 of the Federal Law #208-FZ On Joint Stock Companies (dated 26 December 1995) and Clause 7.5 of Article 7 of Federal Grid Company's Articles of Association, the source of dividend payments is the Company's net profit, which is determined based on the Company's accounting statements.

According to Federal Grid Company's 2012 accounting statements, there was a net loss of RUR24,502 million. The main reasons for the loss were a negative margin on the revaluation of financial investments in shares listed on the stock market and a reflection of activities on the accrual and recovery of bad debt provisions.

In 2013, the Company's Annual General Meeting of Shareholders will make a resolution to pay 2012 dividends. Shareholders are invited to make a decision not to pay 2012 dividends on the Company's ordinary shares.

Investor relations policy

Federal Grid Company is a public company, and is one of the leading "blue chips" in the Russian energy sector. We are committed to maintaining strong communication with the investment community, paying significant attention to communicating with analysts and investors, both in investment forums and conferences, and in personal meetings (either one-on-one or in groups).

During the reporting year, we held two road shows. The first road show was held in April in London, Zurich and Geneva, and was dedicated to our 2011 IFRS financial results. Our staff met with international investment funds, including: BlackRock, Charlemagne Capital, Baring AM, JP Morgan AM, Nomura AM, Pictet, and T Rowe Price. The second road show was in November following the publication of our H1 2012 IFRS financial statements. We held meetings with representatives of: UBS, BlackRock, Baring Asset Management, Fidelity, Charlemagne Capital, Pioneer Investments, Nomura Asset Management, Renaissance Investment Management, HSBC Global Asset Management, and Credit Suisse.

During 2012, the Company's management actively participated in conferences and forums (including: "Russia Calling!", Adam Smith, the APEC Summit, and others) and met with representatives of the (relevant) stock exchanges and investment fund analysts. In particular, in October, the Chairman of the Company's Board of Directors Ernesto Ferlenghi took part in the Russian-European Economic Forum "Investments in modern Russia. IPO, stocks and bonds", which was held in Milan, Italy. On 26 November 2012, Federal Grid Company's delegation (headed up by the Chairman of the Management Board Oleg Budargin) paid an official visit to the London Stock Exchange (LSE). In December 2012, we conducted our first social event with analysts and investment institutions, where we summed up year-end results.

The active work of our investor relations staff was greatly appreciated by the investment community. Thus, in July 2012, Federal Grid Company entered the top 5 best companies (among large caps) according to IR Magazine Russia & CIS. In September, our Company became a member of the UK Investor Relations Society. In December 2012, the rating agency "Expert RA" awarded our annual report a top-ranking, in terms of preparation quality and information disclosure among 100 annual reports of Russia's largest companies from 2011.

Contacts

Addresses, telephone numbers, contact persons, bank details, the Company's website address, brief information on the auditor, the registrar and the depository responsible for maintaining the Company's securities:

Federal Grid Company:

Address: 5A Akademika Chelomeya Street, Moscow, Russia, 117630

Telephone of the unified information center: 8 800 200 1881

Fax: +7 495 710 9655

E-mail: info@fsk-ees.ru

Website: http://fsk-ees.ru

Contact information for institutional investors and analysts:

Investor Relations

Telephone: +7 495 710 9064

E-mail: ir@fsk-ees.ru

According to the terms of the dealer agreement in respect to the bond issue program concluded by JSC Federal Grid Company and Federal Grid Finance Limited, one of the following companies - PriceWaterhouseCooper, Ernst&Young, Deloitte, KPMG - or one of its affiliates shall be appointed as an auditor for Federal Grid Company IFRS consolidated financial statements. According to this requirement, PriceWaterhouseCooper CJSC was appointed as the auditor for Federal Grid Company's consolidated financial statements for 2012, wich were prepared in compliance with IFRS (as adopted in the EU).

Full name of the company: Closed Joint Stock Company PricewaterhouseCoopers Audit

Abbreviated company name: PwC Audit

Location: 10 Butyrsky Val Street, Moscow, Russia, 125407

INN: 7705051192

OGRN: 1027700148431

Telephone: +7 (495) 967-6000

Fax: +7 (495) 967-6001

E-mail: hotline@ru.pwc.com

Information on the auditor's membership in self-regulated organizations

Organization's full name: Not-for-Profit Partnership Audit Chamber of Russia

Location: Building 9, Block 2, 3rd Syromyatnichesky Lane, Moscow, Russia, 105120

Information on Federal Grid Company's auditor that conducted the 2012 independent audit of the accounting/financing reporting (according to RAS and IFRS):

Full name of the company: RSM Top-Audit Limited Liability Company

Abbreviated company name: RSM Top-Audit LLC

Location: 4 Pudovkin Street, Moscow, Russia, 119285

INN: 7722020834

OGRN: 1027700257540

Telephone: +7 (495) 363-2848

Fax: +7 (495) 981-4121

E-mail: mail@top-audit.ru

Information on the auditor's membership in self-regulated organizations:

Organization's full name: self-regulated auditors organization, the "Russian Body of Auditors"

Location: 1/3 2nd Goncharny Lane, Moscow, Russia, 115172

Information on the organization(s) registering the rights for the Company's securities:

The registrar, maintaining the register of the Company's registered securities

Information on the registrar:

Full company name: STATUS Registrar Company, Closed Joint Stock Company

Abbreviated company name: CJSC STATUS

ALocation: 32/1 Novorogozhskaya Street, Moscow, Russia, 109544.

Tel.: +7 (495) 974-8350

Fax: +7 (495) 678-7110

E-mail: info@rostatus.ru

License number: 10-000-1-00304

Issue date: 12 March 2004

License term: indefinite

Issuing authority: Russian's Federal Financial Markets Service

Information on the depository responsible for the centralized maintenance of corporate bonds:

Full company name: Non-Banking Credit Organization Closed Joint Stock Company National Settlement Depository

Abbreviated company name: NSD

Location: 1/13 Sredny Kislovsky Lane, Building 8, Moscow, Russia

License number: 177-12042-000100

Issue date: 19 February 2009

License term: indefinite

Issuing authority: Russian's Federal Financial Markets Service

Glossary

Different names for Federal Grid Company and its branches

Federal Grid Company, FGC, the Company	Open Joint Stock Company "Federal Grid Company of Unified Energy System (JSC FGC UES)
Branches	The branches of Federal Grid Company – Backbone Electric Grid (MES), Backbone Electric Power Grid Company (PMES)
Head Office (EO)	The head office of Federal Grid Company

Abbreviation

Abbreviation	Full name
ADECS	Automated Dispatch and Engineering Control System
APCS	Automated Process Control System
AT	Automatic Transformer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRS	Corporate Social Responsibility
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ESPO	Eastern Siberia-Pacific Ocean Pipeline
ESUPCN	Energy System's Unified Process Communications Network
FFMS	Federal Financial Markets Service
FOCN	Fiber-Optic Communications Network
FTS	Federal Tariff Service
GMC	Grid Management Center
HPP	Hydro-Power Plant
HPF	Hazardous Production Facility
KPI	Key Performance Indicator
MES	Backbone Electric Grid
MGMC	Main Grid Management Center
NPP	Nuclear Power Plant
NGPP	Non-Governmental Pension Program
OAD	Organizational and Administrative Documents
OSC	Operational and Situational Center
PMES	Backbone Electric Grid Transmission Line Company
PGC	Power Grid Complex
PTC	Personnel Training Center

RAB	Regulatory Asset Base
R&D	Research and Development
SAC	Situational and Analytical Center
SDC	Subsidiary and Dependent Companies
SDPP	State District Power Plant
SS	Sub-station
TPP	Thermal Power Plant
UES	Unified Energy System
UES of Russia	Unified Electrical System of Russia
UNEG	Unified National (all-Russian) Electric Grid
WECM	Wholesale Electricity and Capacity Market

Appendices

Federal Grid Company of Unified Energy System

Contents

Information on Compliance with the FCSM Corporate Code of Conduct

№	CCC Article	Compliant/ Non-compliant	Note
	General Shareholders Meeting		
1	Notifying shareholders about the General Shareholders Meeting at least 30 days prior to the meeting date, irrespective of items included on the agenda, unless a longer notice is stipulated by legislation.	**Compliant**	According to p. 11.4 of Article 11 of the Company's Articles of Association, the 30-day notice on the General Shareholders Meeting shall be sent (or handed over) to each person included in the list of persons authorized to participate in the General Shareholders Meeting. The notice shall also be published in the Rossiyskaya Gazeta newspaper.
2	Shareholders' opportunity to examine the list of persons authorized to participate in the General Shareholders Meeting, starting from the notification date for the General Shareholders Meeting through to closing the internal General Shareholders Meeting, and in case of a meeting held in absentia, till the date for receiving voting ballots expires.	**Compliant**	Any person holding at least 1 percent of votes is entitled to this. Document data and postal addresses for individuals included on this list are provided only at the consent of these individuals.
3	Shareholders' opportunity to examine information (materials) which are to be submitted during preparation for the General Shareholders Meeting, via electronic communication, including the Internet.	**Compliant**	According to p. 11.5 of Article 11 of the Company's Articles of Association, the shareholders are entitled to within 20 days prior to the General Meeting, and within 30 days prior to the General Meeting in case the General Shareholders Meeting includes an agenda item on re-organizing the Company, to examine materials for the General Shareholders Meeting on the Internet. The information is published on the Company's website at http://fsk-ees.ru/, in the Shareholders and Investors section.
4	Shareholders' opportunity to submit an issue for inclusion on the agenda of the General Shareholders Meeting or to demand that a General Shareholders Meeting be called without giving an extract from the register of shareholders if their rights to shares are registered in the register of shareholders, and the sufficiency of an extract from the depository account for executing the above-mentioned rights if their rights to shares are registered on the depository account.	**Partially compliant**	In accordance with p. 4.7 of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting, when an issue is submitted to the agenda or when an Extraordinary General Shareholders Meeting is called, a shareholder's possession of shares, the rights to which are considered based on the deposit account in the depository, is confirmed by providing an extract from the depository account.
5	Provision in the Articles of Association or internal documents of the joint stock company that require the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Audit Commission and the auditor of the joint stock company at the General Shareholders Meeting.	**Partially compliant**	Paragraph 7.2 of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting requires that the Chairman of the Board of Directors (or the Deputy Chairman of the Board of Directors, or any member of the Board of Directors as assigned by shareholders to be present at the GSM) be Chairman of the GSM.
6	The obligatory presence of candidates during the consideration of issues related to electing members of the Company's Board of Directors, the General Director, members of the Management Board, and members of the Audit Commission, as well as the issue of approving the auditor of the joint stock company at the General Shareholders Meeting.	**Non-compliant**	The obligatory presence of candidates during the consideration of issues related to electing members of the Company's Board of Directors, the General Director, members of the Management Board, members of the Audit Commission, as well as the issue of approving the auditor of the joint stock company at the General Shareholders Meeting is not stipulated in the Company's internal documents, but the candidates for specific positions may be present at the Company's General Shareholders Meeting.
7	A registration procedure for participants at the General Shareholders Meeting in the internal documents of the joint stock company.	**Compliant**	Paragraph.5.1 of Article 5 of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of Federal Grid Company.

№	CCC Article	Compliant/ Non-compliant	Note
	Board of Directors		
8	Provision in the Articles of Association of the joint stock company for the Board of Directors' authority to approve on an annual basis the financial and economic plan of the joint stock company.	**Compliant**	In accordance with p.p.33 and 15.1 of Article 15 of the Company's Articles of Association, the areas of competency for the Board of Directors includes: approving the business plan and targets for the Company's key performance indicators (KPIs).
9	A risk management procedure for the joint stock company, approved by the Board of Directors	**Non-compliant**	This procedure was not approved by the Company's Board of Directors as a separate document.
10	Provision in the Articles of Association of the joint stock company regarding the right of the Board of Directors to make a decision on suspending the authority of the General Director, as appointed by the General Shareholders Meeting	**Not applicable**	The functions of the Company's sole executive body are performed by the Chairman of the Company's Management Board. In accordance with sub-paragraph 10 of paragraph 10.1 of Article 10 of the Company's Articles of Association, the Chairman's election and early termination is an area that falls under the competency of the Company's General Shareholders Meeting.
11	Provision in the Articles of Association of the joint stock company of the right of the Board of Directors to establish requirements for professional skills and remuneration for the General Director, members of the Management Board and the heads of the primary structural divisions of the joint stock company	**Partially compliant**	In accordance with sub-paragraphs 10 and 37 of Paragraph 15.1 of Article 15 of the Company's Articles of Association, areas of competency that fall under the Company's Board of Directors include establishing remuneration and compensation for the Chairman and members of the Company's Management Board.
12	Provision in the Articles of Association of the joint stock company of the right of the Board of Directors to approve contract terms with the General Director and members of the Management Board	**Compliant**	Sub-paragraph 37 of Paragraph 15.1 of Article 15 of the Company's Articles of Association - the Board of Directors approves contract terms with the General Director and members of the Management Board.
13	Provision in the Articles of Association or internal documents of the joint stock company for the requirement stating that votes of members of the Board of Directors, who are either the General Director or members of the Management Board, are not taken into account when voting to approve contract terms with the General Director (a management organization or the managing director) and members of the Management Board	**Compliant**	According to p. 18.10 of the Company's Articles of Association when deciding on the issue stipulated by p.p. 37 and 15.1 of the Company's Articles of Association the votes of members of the Board of Directors, who are simultaneously members of the Company's sole executive body, are not taken into account.
14	Presence on the Board of Directors of the joint stock company of at least three independent directors that meet (independence) requirements of the Corporate Conduct Code	**Compliant**	In accordance with a decision of Federal Grid Company's Annual General Shareholders Meeting on 29 June 2012 (Minutes #12 as of 02.07.2012), the following directors meeting independence requirements were included in the Company's Board of Directors: R.R Sharipov, V.V. Rashevsky, E.B. Titova and I.V. Scherbovich.
15	Absence in the composition of the Board of Directors of the joint stock company of persons who have been found guilty of committing crimes in the sphere of economic activities or crimes against the government, interests of public service and service to local government institutions or who had administrative punishments applied to them for violations of the law in the area of entrepreneurial activity or in the areas of finance, tax and tax collections and the securities market	**Compliant**	There are no such persons in the composition of the Company's Boards of Directors valid throughout 2012.

№	CCC Article	Compliant/ Non-compliant	Note
16	Absence in the composition of the Board of Directors of the joint stock company of persons who are participants, the General Director (managing director), member of a regulatory body or employee of a legal entity that competes with the joint stock company	**Compliant**	There are no such persons in the composition of the Company's Boards of Directors valid throughout 2012.
17	Requirement in the Articles of Association of the joint stock company to elect the Board of Directors via cumulative voting	**Compliant**	According to p. 10.9 of Article 10 of the Company's Articles of Association, during cumulative voting, the number of votes owned by each shareholder is multiplied by the number of persons to be elected to the Company's Board of Directors.
18	Provision in the internal documents of the joint stock company of the obligation of members of the Board of Directors to withdraw from actions that lead or potentially lead to a conflict between their interests and the interests of the joint stock company; obligation to disclose information on this conflict to the Board of Directors in case it occurs	**Compliant**	According to p.p. 4.1.6 of p.4.1 of p.4 of the Company's Code of Corporate Governance, members of the Company's Board of Directors shall refrain from actions which may result in a conflict between their interests and the interests of the Company. In case such a conflict arises, a member of the Company's Board of Directors shall inform the other members of the Board of Directors and also refrain from voting on related issues
19	Provision in the internal documents of the joint stock company that members of the Board of Directors have the duty to notify the Board of Directors in writing of their intention to make transactions with securities of the joint stock company, if they are members of the Board of Directors of this joint stock company or its subsidiaries or dependent companies, as well as to disclose information about the transactions with such securities made by them	**Compliant**	According to p. 16.9 of Article 16 of the Company's Articles of Association, and p. 3 of the Regulation of the Company's Board of Directors, and p.p. 7.2 and 7.3 of the Insider Information Policy, and pp. 4.1.6 and 4.1. of the Company's Code of Corporate Governance, members of the Company's Board of Directors are obliged to disclose information on the sale (disposal) and (or) purchase of Company securities.
20	Provision in the internal documents of the joint stock company of the requirement to hold at least one meeting of the Board of Directors every six weeks	**Non-compliant**	According to p. 6.4 of Article 6 of the Regulation of the Board of Directors, the meetings of the Board of Directors are conducted as necessary, but at least once every quarter.
21	Meetings of the Board of Directors of the joint stock company during the year, which are the subject of the annual report of the joint stock company, are carried out regularly, at least one meeting every six weeks	**Compliant**	On average in 2012, meetings of the Company's Board of Directors were held at least once per month or more.
22	Provision in the internal documents of the joint stock company of a procedure for holding meetings of the Board of Directors	**Compliant**	The Company has an established Regulation of the Board of Directors, approved by a resolution of the Company's Annual General Shareholders Meeting dated 30 June 2009 (Minutes #7, dated 10 June 2009).
23	Provision in the internal documents of the joint stock company of regulations on the necessity of the Company's Board of Directors to approve transactions that amount to 10 percent or more of the cost of the Company's assets, except for transactions made as part of the Company's day-to-day economic activity	**Partially compliant**	Sub-item 27 (a) of Item 15.1 of Article 15 of the Company's Articles of Association stipulates that the Board of Directors grants preliminary approval for corporate transactions that have non-current assets worth more than 10 percent of the balance value as the object of the transactions.
24	Provision in the internal documents of the joint stock company of the right of members of the Board of Directors to receive information required to perform their functions from executive bodies and the heads of the Company's main structural divisions, as well as responsibility for the failure to provide such information	**Compliant**	In accordance with Section 3 of the Regulations on the Board of Directors, members of the Company's Board of Directors are entitled to receive information about the Company's operations, including commercial secrets, and to access all constituent, normative, reporting, accounting, contractual and other corporate documents.
25	The existence of a Strategic Planning Committee of the Board of Directors or another committee assigned with said functions (except for the Audit Committee and the Human Resources and Remuneration Committee)	**Compliant**	The establishment of the Strategy Committee was approved by a decision of the Company's Board of Directors as of 15 May 2008 (Minutes #62). Operational procedures are laid out by the Regulations on the Strategy Committee of Federal Grid Company.

№	CCC Article	Compliant/ Non-compliant	Note
26	The existence of a committee of the Board of Directors (the Audit Committee) which recommends the auditor for the joint stock company to the Board of Directors and cooperates with the auditor and the Audit Commission of the joint stock company.	**Compliant**	The establishment of the Audit Committee was approved by a decision of the Company's Board of Directors as of 15 February 2008 (Minutes #54). Operational procedures are laid out by the Regulations on the Audit Committee of the Board of Directors of Federal Grid Company.
27	The presence of only independent and non-executive directors on the Audit Committee	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 12.09.2012), the Audit Committee consists only of independent and non-executive directors.
28	The Audit Committee is managed by an independent director	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 11.09.2012), the Audit Committee of the Company's Board of Directors is managed by independent director R.R. Sharipov.
29	Provision in internal documents of the joint stock company of the right of all members of the Audit Committee to access any documents and information about the joint stock company provided that they do not disclose confidential information	**Compliant**	Sections 3 and 4 of the Regulations on the Audit Committee of the Board of Directors of Federal Grid Company.
30	Establishing a committee of the Board of Directors (the Human Resources and Remuneration Committee) with the function of defining recruitment criteria for candidates applying for positions of members of the Board of Directors and developing the joint stock company's remuneration policy	**Compliant**	The HR and Remuneration Committee was established by a decision of the Company's Board of Directors as of 15 February 2008 (Minutes #54). The procedure for the Committee's operations is laid out by Regulations on the HR and Remuneration Committee of the Board of Directors of Federal Grid Company.
31	The Human Resources and Remuneration Committee is managed by an independent director	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 12.09.2012), the HR and Remuneration Committee is managed by the independent director D.V. Fyodorov.
32	The absence of officials of the joint stock company on the Human Resources and Remuneration Committee	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 12.09.2012), the HR and Remuneration Committee consists of persons holding no official positions in the Company.
33	Establishing the Risk Committee under the Board of Directors or assigning these functions to another committee (except for the Audit Committee and the Human Resources and Remuneration Committee)	**Non-compliant**	The Committee has not been established.
34	Establishing the Corporate Conflicts Settlement Committee of the Board of Directors or assigning these functions to another committee (except for the Audit Committee and the Human Resources and Remuneration Committee)	**Non-compliant**	The Committee has not been established.
35	The absence of joint stock company officials on the Corporate Conflicts Settlement Committee	**Not applicable**	The Committee has not been established.
36	The Corporate Conflicts Settlement Committee is managed by an independent director	**Not applicable**	The Committee has not been established.
37	Provisions in internal documents of the joint stock company of procedures for establishing and operating Board of Directors' Committees, approved by the Board of Directors	**Compliant**	Regulations: On the Audit Committee, On the HR and Remuneration Committee, On the Reliability Committee of the Board of Directors, On the Strategy Committee, On the Investment Committee and on the Reliability Committee.
38	Provisions in the Articles of Association of the joint stock company on the process for defining the quorum for the Board of Directors, providing for the obligatory participation of independent directors in Board of Directors' meetings	**Non-compliant**	According to p. 18.2 of the Company's Articles of Association, the quorum to conduct a meeting of the Board of Directors is composed of at least half of the total number of elected members of the Board of Directors.

№	CCC Article	Compliant/ Non-compliant	Note
	Executive bodies		
39	Provision of the collegial executive body (Management Board) of the joint stock company	**Compliant**	According to p.20.1 of Articles 20 and 21 of the Company's Articles of Association, the running activities of the Company are managed also by the Company's Management Board, which is the collegial executive body.
40	Provision in the Articles of Association or internal documents of the joint stock company on regulations on the necessity of the Management Board's approval of transactions with real estate and loans taken out by the joint stock company provided that said transactions are not deemed major transactions and are not part of the day-to-day economic activities of the joint stock company	**Compliant**	In accordance with p.15.1 of Article 15 of the Company's Articles of Association, it is an area of competency under the Board of Directors. At the same time, however, in accordance with Item 6.1 of the Regulations on the Preparation of Materials for the Management Board's meetings, all questions submitted for consideration to the Company's Board of Directors are subject to mandatory preliminary considerations by the Company's Management Board.
41	Provision in the internal documents of the joint stock company on the procedure for approving operations beyond the financial and economic plan of the joint stock company	**Partially compliant**	The Regulation on the Company's internal control (as approved by a decision of the Company's Board of Directors, Minutes #170 as of 02.08.2012) envisages the establishment in the Company of an efficient internal control system and the setting of a procedure for the interaction of the Company's control departments integrated into the internal control system, with responsibilities strictly assigned. In part, these questions are outlined by the Regulations on the Procedure for Placing Temporarily Disposable Free Funds of Federal Grid Company (approved by the Management Board of Federal Grid Company, Minutes #528 as of 24 April 2008) and by the Regulations on Debt Management Procedure (approved by the Company's Board of Directors, Minutes #44 as of 29 May 2007).
42	Absence in the composition of the executive bodies of persons who are either participants, the General Director (the managing director), members of the management body or employees of a legal entity that competes with the joint stock company	**Compliant**	There are no such persons in the executive body.
43	Absence in the structure of the executive bodies of the joint stock company of persons who were found guilty of committing crimes in the area of economic activities or crimes against the government, interests of public service and service in local government institutions, or of persons who experienced administrative punishments for violations in the area of business activity or in the areas of finance, taxes, fiscal charges and the securities market. If functions of the sole executive body are carried out by a management organization or a managing director, the General Director and members of the Management Board of the management organization or the managing director must meet the requirements of the General Director and members of the Management Board of the joint stock company	**Compliant** **Non-compliant**	There are no such persons in the executive body.
44	Provision in the Articles of Association or internal documents of the joint stock company to prohibit the management organization (the managing director) from carrying out similar functions in a competing company, as well as to be in any other material relationship with the joint stock company, besides rendering the services of the management organization (the managing director)	**Compliant**	This prohibition is not provided for by the Company's Articles of Association or by any other documents.

№	CCC Article	Compliant/ Non-compliant	Note
45	Provision in internal documents of the joint stock company of the duties of the executive bodies to withdraw from actions leading or potentially leading to a conflict of interest and the interests of the joint stock company, and duties to inform the Board of Directors if such a conflict occurs	**Non-compliant**	According to p. 4.2.7 of the Company's Code of Corporate Governance, the Chairman and members of the Management Board shall refrain from actions which may result in a conflict between their interests and the interests of the Company. In case such a conflict arises, the Chairman or a member of the Company's Management Board shall inform the Board of Directors and shall also refrain from discussing and voting on related issues.
46	Provision in the Articles of Association or internal documents of the joint stock company of criteria for electing the management organization (the managing director)	**Non-compliant**	The Company's Articles of Association or any other documents do not contain any selection criteria for management organizations, as the Company has no intentions to attract one to perform the functions of the Company's sole executive body.
47	The joint stock company's executive bodies present monthly performance reports to the Board of Directors	**Compliant**	Reports by the Chairman of the Company's Management Board are provided on a quarterly basis (sub-paragraph 14 of paragraph 22.1 of Article 22 of the Company's Articles of Association).
48	Liability for infringing on the provisions for using confidential and proprietary information stated in contracts concluded by the joint stock company with the General Director (the management organization, the managing director) and members of the Management Board	**Compliant**	Contracts signed by the Company with the Chairman of the Management Board and members of the Management Board outline the liability for violations of provisions on the use of confidential and proprietary information.

Company Secretary

№	CCC Article	Compliant/ Non-compliant	Note
49	Presence in the joint stock company of a specific official (the Company Secretary) whose task is to ensure the compliance of bodies and officials of the joint stock company with procedural requirements guaranteeing the execution of rights and the legitimate interests of the Company's shareholders	**Compliant**	The function is performed by the Secretary of the Company's Board of Directors.
50	The process of appointing (electing) the Company Secretary and his/her duties are stipulated by the Articles of Association or internal documents of the joint stock company	**Non-compliant**	Article 4 of the Regulations on the Board of Directors.
51	Provision in the Articles of Association of the joint stock company for requirements for candidates for the position of the Company's Secretary	**Compliant**	There are no such requirements.

Material Corporate Actions

№	CCC Article	Compliant/ Non-compliant	Note
52	Presence in the Articles of Association of the joint stock company of a prohibition to undertake any action when acquiring (taking over) a large stake of shares of the joint stock company (takeover) aimed at protecting the interests of executive bodies (members of these bodies) and members of the Board of Directors of the joint stock company, as well as actions worsening the shareholders' positions compared with their existing position (in particular, a prohibition against the Board of Directors on making decisions on the issue of additional shares, the issue of securities that are convertible into shares or securities enabling a person to purchase shares of the Company before the termination of the Prospectus even if the right to make these decisions is granted by the Articles of Association)	**Compliant**	This prohibition is not provided for by the Company's Articles of Association.

№	CCC Article	Compliant/ Non-compliant	Note
53	Requirement in the Articles of Association or internal documents of the joint stock company to approve a major transaction prior to its fulfillment	**Non-compliant**	Sub-paragraph 16 of paragraph 10.2 of Article 10 and sub-paragraph 20 of paragraph 15.1 of Article 15 of the Company's Articles of Association.
54	Obligatory involvement of an independent appraiser in evaluating the market value of the property which is the subject of the major transaction	**Non-compliant**	Said deals involve the services of an independent appraiser.
55	Requirement in the Articles of Association of the joint stock company of the obligatory involvement of an independent appraiser to estimate the current market share price and possible changes in the share price as the result of a takeover	**Compliant**	This requirement is not provided for by the Company's Articles of Association. But in case the Company is re-organized, the decision on re-organization will be based, among other things, on the results of the estimation of the current market price of the Company's property and shares.
56	Absence in the Articles of Association of the joint stock company of the release of a purchaser from their duty to make an offer to shareholders to sell their ordinary shares (securities issue that is convertible into ordinary shares) during a takeover	**Compliant**	This norm is not provided for by the Company's Articles of Association.
57	Presence in the Articles of Association or internal documents of the joint stock company of the requirement for the obligatory involvement of an independent appraiser in defining the share conversion ratio during re-organization	**Compliant**	According to p. 26.2 of Article 26 of the Company's Articles of Association in case the General Shareholders Meeting decides to re-organize the Company, an independent appraiser shall be involved to define the share conversion ratio.

Information Disclosure

№	CCC Article	Compliant/ Non-compliant	Note
58	An internal document approved by the Board of Directors that outlines rules and approaches of the joint stock company to information disclosure (Regulations on the Information Policy)	**Non-compliant**	The Regulations on the Information Policy were approved by the Company's Board of Directors on 28 February 2008 (Minutes #55).
59	Existence of internal documents of the joint stock company that require the disclosure of information about the purpose of the share issue, about persons intending to purchase shares to be issued, including a large shareholding and about whether executives of the joint stock company participate in purchases of the Company's shares to be issued	**Compliant**	This requirement is not provided for by the Company's Articles of Association or any other documents.
60	Existence of a list of information, documents and data in internal documents of the joint stock company which should be given to shareholders for making decisions on items submitted to the General Shareholders Meeting	**Compliant**	A list of information (materials) is defined by the Company's Board of Directors based on Articles 11 and 12 of the Company's Articles of Associations, p. 7 of the Regulations on the Information Policy and p. 4 of the Procedure for the Preparation and Holding of the General Shareholders Meeting.
61	A website of the joint stock company on the Internet that regularly discloses information on the joint stock company (on the website)	**Compliant**	http://www.fsk-ees.ru/
62	Presence in internal documents of the joint stock company of the requirement to disclose information about transactions of the joint stock company made with persons who according to the Articles of Association are among executives of the joint stock company, as well as about transactions of the joint stock company made with organizations in which executives of the joint stock company hold, directly or indirectly, 20 percent of the authorized capital of the joint stock company and above or which can be essentially influenced by said persons	**Compliant**	In accordance with p.5.2.8 of the Regulations on the Information Policy.
63	Presence in internal documents of the joint stock company the requirement to disclose information about all transactions which can influence the market price of the Company's shares	**Compliant**	In accordance with Items 5.1 and 5.2.10 of the Company's Regulations on the Information Policy.

№	CCC Article	Compliant/ Non-compliant	Note
64	An internal document approved by the Board of Directors on using essential information on the operations of the joint stock company, shares and other corporate securities and transactions with them which are not public and the disclosure of which could materially influence the market price of shares and other securities of the joint stock company	**Compliant**	The Regulations on Insider Information were approved by a resolution of the Board of Directors as of 6 October 2011 (Minutes #144).
	Control over Financial and Economic Activity		
65	Internal control procedures over the financial and economic activity of the joint stock company are approved by the Company's Board of Directors	**Compliant**	The current Regulation on the Company's Audit Commission has been approved by a decision of the AGM on 29.06.2012 (Minutes #12 as of 02.07.2012), while the current Regulation on the Company's internal control system has been approved by a decision of the Company's Board of Directors, dated 02.08.2012 (Minutes #170 as of 02.08.2012).
66	A special division of the joint stock company which enforces the execution of internal control procedures (supervision and auditing services)	**Compliant**	The Company's divisions responsible for the internal control procedures include the following: The Control and Audit Department, responsible for the selective control of financial, production and economic activities of the Company's divisions and of the executive body, and of the Company's subsidiaries and dependent companies. The Department is also responsible for control over compliance with the strategic development level and for the efficiency of the Company's information technologies. Other responsibilities include: identifying and mobilizing the Company's internal economic potential and profit generating reserves; the investigation of cases of abuse by legal and physical persons resulting in damage done to the Company's interests; and interactions with senior internal control bodies. The Internal Control Division responsible for developing and updating the Company's internal control system, taking into account changes in the scale of the Company's operations and governance structure. Other responsibilities include: the analysis of the organization of business processes in regard to the efficiency of control procedures applied, the optimization of the allocation of responsibilities among the Company's divisions, the exclusion of redundant/double functions and the identification and analysis of risks and the development of a risk matrix. The Technical Supervision and Audit Department is responsible for the technical audit of the Company's key production and economic activities, including the analysis of technical supervision results pertaining to the re-construction and technical re-equipment of the Company's facilities and newly constructed facilities. The analysis is performed by the technical supervision departments of corporate branches. Other responsibilities include: controlling the process of timely and proper investigation of disturbances, as well as a selective control of the efficiency of production and technical operations of the structural units of the Company's executive body and the Company's subsidiary and dependent companies, including the internal technical control system, assessing the compliance of the above with requirements.

№	CCC Article	Compliant/ Non-compliant	Note
			The Investment Planning and Reporting Department is responsible for controlling compliance with the investment operations budget, controlling the implementation of the Company's investment program in regard to timely financing and achieving the control points of the priority investment projects. Other responsibilities include: controlling the grounds for the appreciation of the Company's investment program projects, by using independent expertise. The Reliability and Analysis Unit of the Production Control Department is responsible for controlling the validity of reporting information on the implementation of the Company's repair program, the quality assurance of maintenance and repair work and diagnostics for substation and power transmission line equipment. Other responsibilities include: controlling implementation terms for the overall quantity of maintenance and repair work and selective control over compliance with the Company's current Industrial Guidelines, as assigned by the Company's management team.
67	The presence in internal documents of a requirement by the Board of Directors of the joint stock company about defining the structure and composition of the supervisory and auditing services of the joint stock company	**Compliant**	The Company's Regulations on the Internal Control System (approved by a decision of the Company's Board of Directors, Minutes #170, dated 02.08.2012) sets a structure for the Company's internal control bodies with individual competencies and responsibilities. The structure consists not only of the Company's management and controlling bodies, such as the Board of Directors, the Chairman of the Management Board, the Audit Commission, responsible for defining the basic principles of the operation of the Company's internal control system, but also of specialized internal control departments intended to support and monitor the efficiency of the operation of the internal control system.
68	Absence in the supervisory and auditing services of persons who were found guilty of committing crimes in the area of economic activities or crimes against the government, interests of public service and the service of local government institutions, or persons who had administrative punishments applied to them for violations in the area of business activity or in the areas of finance, taxes, fiscal charges and the securities market	**Compliant**	There are no such persons in the Company's supervisory and auditing services.
69	Absence in the composition of the supervisory and auditing services of persons who are members of any executive body of the joint stock company, and persons who are participants, the General Director (the managing director), members of management bodies or employees of a legal entity that competes with the joint stock company.	**Compliant**	There are no such persons in the Company's supervisory and auditing services.
70	Presence in internal documents of the joint stock company of a timeframe for presenting documents and data to the supervisory and auditing services for estimating the financial and economic operations carried out, and the responsibility of officials and employees of the joint stock company for their failure to present documents and data within the specified timeframe	**Compliant**	Paragraph 7 of the Regulations on the Audit Commission.
71	Presence in the internal documents of the joint stock company of the supervisory and auditing services' duty to inform the Audit Committee about revealed infringements, and in case of the latter's absence, the presence of a duty to inform the Board of Directors of the joint stock company of said infringements	**Compliant**	According to p. 4 of the Regulations on the Audit Commission if any abuse of power by officials is revealed, as well as any misappropriations, embezzlement, shortages and illegal expenditures in cash and material assets, an intermediate statement shall be drawn up and the Board of Directors shall be informed of such occurrences immediately.

№	CCC Article	Compliant/ Non-compliant	Note
72	Presence in the Articles of Association of the joint stock company of the requirement for a preliminary estimation by the supervisory and auditing services of the feasibility of operations not included in the financial and economic plan of the joint stock company (non-standard operations)	**Non-compliant**	This requirement is not provided for by the Company's Articles of Association.
73	Presence in the internal documents of the joint stock company a coordinated procedure for non-standard operations with the Board of Directors	**Non-compliant**	This procedure is not laid out in the Company's internal documents.
74	An internal document approved by the Board of Directors that defines the Audit Commission's inspection procedure for the joint stock company's financial and economic activity	**Compliant**	The Regulations on the Audit Commission as approved by the resolution of JSC RAO UES of Russia's Board of Directors on 29.06.2012 (Minutes #12 as of 02.07.2012), the Regulations on the Company's Internal Control System as approved by the Company's Board of Directors on 02.08.2012 (Minutes #170, as of 02.08.2012).
75	The Audit Committee's evaluation of the Auditor's Report prior to its presentation to shareholders at the General Shareholders Meeting	**Compliant**	According to p.2.1.4. of p.2 of the Regulations on the Audit Committee approved by the Company's Board of Directors, the terms of reference for the Audit Committee includes preliminary assessment of book-keeping reports.
	Dividends		
76	An internal document approved by the Board of Directors and used by the Board of Directors as guidelines for approving recommendations on the dividend amount (Dividend Policy Regulations)	**Compliant**	The Company's Regulations on the Dividend Policy approved by a decision of Federal Grid Company's Board of Directors as of 16 December 2010 (Minutes #120).
77	Presence in the Dividend Policy Regulations on rules defining the minimum share of the joint stock company's net profit allocated to dividend payments, and conditions for the non-payment or partial payment of dividends on preferred shares, which have a dividend size outlined in the Articles of Association of the joint stock company.	**Compliant**	The procedure for the determination of the minimal share of the Company's net profit allocated to dividend payment is outlined in p. 4.3 of the Regulations on the Dividend Policy
78	Publication on information about the joint stock company's dividend policy and amendments to it in the periodic publication outlined by the Articles of Association of the joint stock company for publishing information about the General Shareholders Meeting, and publication of said data on the joint stock company's Internet website	**Compliant**	The Company's Regulations on its Dividend Policy are published on the Company's official website at http://www.fsk-ees.ru/investors_corporate_doc.html

Implementation of the assignments of the President and the Government of the Russian Federation

№	Assignment Issued By	Registration Details	Assignment Summary	Performance Status	Performance Result
1.	The President of the Russian Federation	Pr-3668 dated 06.12.2011	On undertaking measures to optimize property owned by State-owned joint stock companies	Federal Grid Company prepared the draft Non-Core Assets Management Program that establishes the criteria for attributing real estate property and shares of SDCs and other entities owned by the Company to non-core assets, as well as the order and formats for keeping the register of non-core assets, approaches to establishing value and basic rules for non-core asset disposal.	The Board of Directors of Federal Grid Company approved the Company's Non-Core Assets Management Program (Minutes #178 dated 16.11.2012).
2.	The President of the Russian Federation	Pr-3291 dated 03.11.2012	On implementing the principles of co-investing in Russian and international venture funds for joint stock companies partially or fully owned by the State	1. Federal Grid Company prepared and sent to Russia's Ministry of Economic Development a proposal for Federal Grid Company's investment in Russian and international venture funds; 2. Federal Grid Company submitted proposals on removing obstacles for the Company to invest in venture funds.	The Management Board of Federal Grid Company made a decision to recommend that the Company's Board of Directors make a resolution on the following issue (Minutes #1146/2 dated 21.02.2013): - To consider Federal Grid Company's participation in venture funds via co-investing its property rights for innovative technologies developed within the framework of the Company's R&D Program as expedient. A meeting of the Company's Board of Directors to consider this issue will be held in mid-April 2013.
3.	The President of the Russian Federation	Pr-3291 dated 03.11.2012	Joint stock companies partially or fully owned by the State with approved innovative development programs that are in compliance with the Commission's resolution shall publish in open sources passports of the above-mentioned programs and the lists of innovative projects and areas of R&D developments that will be implemented from 2011-2020.	The Company's Innovative Development Program till 2016 with an outlook till 2020 was approved by the Board of Directors of Federal Grid Company (Minutes #128 dated 07.04.2011).	The passport for the Company's Innovative Development Program till 2016 with an outlook till 2020 and the Prospect Innovative R&D Directions required for smart grid development were placed on the Company's web site (www.fsk-ees.ru) within the Innovative Development section (in Russian).

№	Assignment Issued By	Registration Details	Assignment Summary	Performance Status	Performance Result
4.	The President of the Russian Federation	Pr-1092 dated 27.04.2012	On selling core assets in economic sectors with a sufficient level of competition (for providing for the maximal involvement of small- and medium-sized companies in manufacturing appropriate products) by State corporations and entities for which more than 50% of shares are owned by the Russian Federation.	Federal Grid Company explored the issue and analyzed the practicality of core asset disposal in economic sectors with a sufficient level of competition (for providing for the maximal involvement of small- and medium-sized companies in manufacturing appropriate products).	The Board of Directors of Federal Grid Company made the following decision (Minutes #174 dated 20.09.2012): - due to the fact that electric energy transmission services are attributed to the activities of natural monopoly entities (according to the Federal Law #147-FZ "On Natural Monopolies" dated 17.08.1995), the disposal of the Company's core assets represented by electric grid facilities and other property used by the Company during its operations was recognized as inexpedient.
5.	The Government of the Russian Federation	VP-P13-9308 dated 28.12.2011 VP-P24-1269 dated 05.03.2012	On submitting full information about income, property and the property-related liabilities of joint stock companies' managers (including members of the Board of Directors/the Supervisory Board, their close relatives (spouse, of-age and underage children, parents and siblings) to the federal executive body responsible for the coordination and legal regulation of the companies' activities, as well as to Russia's Federal Tax Service and the Federal Financial Monitoring Service.	The Company collected information about income, property and property-related liabilities, of members of the Board of Directors and their close relatives (spouse, of-age and underage children, parents and siblings).	By 01.04.2012, documents that included information about income, property and property-related liabilities for members of the Board of Directors, their close relatives (spouse, of-age and underage children, parents and siblings) were submitted to the federal executive body responsible for the coordination and legal regulation of the companies' activities, as well as to Russia's Federal Tax Service and the Federal Financial Monitoring Service.
6.	The Government of the Russian Federation	VP-P13-9308 dated 28.12.2011	On providing for the transparency of operating and financial activities (including avoiding conflicts of interests and abuses of office), including providing for the mandatory disclosure of information about counterparties' owners (including beneficiaries, among these final beneficiaries) and submitting this information to Russia's Federal Tax Service, the Ministry of Energy and the Federal Financial Monitoring Service.	The Company collected information about existing and potential counterparties' owners (data about the owners and the owners of the entities, in case the owners were represented by entities), including beneficiaries (among these final beneficiaries), and about counterparties' executive bodies (hereinafter referred to as Information about owners). The Company developed an internal regulatory base, organized a process for the automated collection of data, the analysis of Information about owners and submitted it to authorized state organizations.	The Company checked Information about owners in respect to the fullness of disclosed information (up to providing data about individuals), the veracity of information about individuals and entities, conflicts of interests, and their connections and the abuse of office connected with potential persons taking posts in Federal Grid Company and its SDCs. Consolidated Information about owners is submitted to the authorized State organization(s) within the established time limit.

Management Discussion and Analysis (MD&A)

Overview of Federal Grid Company's Financial Condition as of 31 December 2012 and 2012 Operations

This Report contains an overview of the financial performance and operations and the financial performance of Federal Grid Company (hereinafter referred to as the "Company"). The Report should be reviewed in conjunction with the Company's 2012 financial statements prepared in accordance with corresponding Russian legislation (Russian Accounting Standards (RAS)), including a corresponding explanatory note.

1. General overview of the Company's operations

Since 2010, tariffs for electricity transmission over the UNEG by Federal Grid Company have been set using the RAB-regulation method, to upgrade the investment attractiveness of the energy sector.

As of 31 December 2012, the Company consisted of regional branches, including 8 Main Electric Grids (MES), 41 Backbone Electric Grid Transmission Line Companies (PMES) and one Bely Rast Specialized Production Base.

In 2011, the volume of power transmission services rendered by the Company amounted to RUR136,581.43 million.

The Company makes considerable investments in fixed assets to provide for the development and reliable operation of the UNEG. In 2012, expenditures on construction, re-construction and renovation of the Company's fixed assets amounted to RUR179,898.9 million (compared with RUR184.716 million in 2011).

The Company financed its 2012 investments from the following sources:

- Revenues generated by power transmission services – 34.4%;

- Borrowed funds, including federal budgetary finds for the current year – 34.4%;

- Funds generated by VAT returns – 14.7%;

- Other sources (including payments for technological connections) – 3.2%.

1.1. Main factors influencing the performance of Federal Grid Company

In 2012, the principal factors influencing the Company's performance include the following:

1. Postponement of the period for setting and revising tariffs from 1 January to 1 July of the next calendar year (Russian Federation Governmental Regulation #1178 dated 29.12.2011) and the establishment of rates for H1 2012 at the level of tariffs set for 2011 (FTS of Russia's Order #325/e-1 dated 6 December 2011);

2. Modification of the RAB-regulation methodology that means changing to determining a base of invested capital based on the value of assets that have been commissioned within the framework of the investment program. Starting from 1 July 2012, the increase in the average rate of network maintenance amounts to 11% (FTS of Russia's Order #114-e/2 dated 21.05.2012), with an average annual tariff growth amounting to 4% in 2012. The tariff will grow 9.4% from 07.01.2013 and 9.4% from 01.07.2014;

3. Successful implementation of the cost management program, which reduced the Company's operating costs;

4. A write-off of negative differences resulting from the mark-to-market revaluation of securities that are listed on the market (primarily JSC Inter RAO UES shares);

5. Accrual of provisions for the devaluation of financial investments (not subject to revaluation at market value) (bills owned by LLC Energo-Finans, equity investments in the shares of JSC Mobile GTES);

6. A negative balance of operations involving the establishment and recovery of the bad debt reserve (mainly due to revaluation, at current market value, of energy companies' shares which were on the balance of the Index of Energy of Federal Grid Company and accrued interest on LLC Energo-Finans' bills);

7. Reflection of the revaluation of fixed assets.

2. The Company's financial results

2.1. Key financial results

Revenues and expenses related to usual business operations	2012	2011	Change, RUR million	Change, %
Revenues from core operations,	138,836.49	138,136.62	699.87	0.51%
Including:				
Power transmission services	136,581.43	134,875.49	1,705.94	1.26%
Other operations	2,255.06	3,261.12	-1,006.06	-30.85%
Prime cost of core operations,	-106,617.78	-84,174.33	-22,443.45	26.66%
Including:				
Power transmission services	-105,606.53	-83,201.43	-22,405.10	26.93%
Other operations	-1,011.25	-972.90	-38.35	3.94%
Administrative costs	-9,855.05	-8,726.03	-1,129.02	12.94%
Sales profit	22,363.66	45,236.25	-22,872.59	-50.56%
Other income and expenses				
Interest receivable	4,198.54	3,971.45	227.09	5.72%
Interest payable	-	-	-	-
Income from participation in other organizations	181.40	264.86	-83.47	-31.51%
Other income	109,176.48	171,434.39	-62 257.91	-36.32%
Other expenses	-150,152.17	-209,462.53	59,310.36	-28.32%
Profit (loss) before taxation	**-14,232.10**	**11,444.41**	**-25,676.51**	**2.24 times**
Postponed tax assets	-62.49	46.16	-108.65	2.36 times
Postponed tax liabilities	-8,736.34	-5,544.81	-3,191.53	57.56%
Current profit tax	-1,470.68	-8,389.54	6,918.86	-82.47%
Other similar mandatory payments	-0.30	-3.37	3.07	-91.01%
Adjusted profit tax for the preceding periods	-	-21,21	-21,21	100%
Net profit (loss) for the period	**-24,501.92**	**-2,468.36**	**-22,033.56**	**8.92 times**
Adjusted net profit	**13,413.35**	**33,686.63**	**-20,273.28**	**-60.18%**

2.2. Revenues generated by power transmission services

	2012	2011	Change, RUR million	Change, %
Revenues generated by power transmission services	**136,581.43**	**134,875.49**	**1,705.94**	**1.26%**
Including:				
Payments for the maintenance of UNEG power facilities	125,671.68	120,993.70	4,677.98	3.87%
Payments for normative in-process losses in the UNEG	10,909.75	13,881.80	-2,972.05	-21.41%

An analysis of the 2011-2012 period demonstrates increased revenues generated by power transmission services.

Compared with 2011, revenues generated by power transmission services in 2012 grew RUR1.706 million, including:

— A RUR4,677.98 million increase in revenues related to power grid facility maintenance, mainly due to the growth in tariffs for power transmission through the UNEG starting from 01.01.2012;

— A RUR2, 972.05 million decline in revenues for the compensation of normative losses, due to a reduction in loss limits that are compensable to consumers, from 4.84% to 4.49%.

In 2012, revenues generated by the Company's core regulated operations (excluding revenues from technological connections) made up 98.38% of the Company's total revenues.

2.3. The prime cost of core operations

Cost element	2012	% of the total	2011	% of the total	Change, %
Depreciation of fixed assets	58,993.16	55%	39,784.23	47%	48%
Purchase of energy and capacity	11,662.11	11%	12,183.17	14%	-4%
Labor compensation costs and social expenses	18,070.83	17%	15,836.01	19%	14%
Repair and maintenance	5,446.32	5%	5,291.12	6%	3%
Costs related to the purchase of raw stuff and materials	2,702.35	3%	2,423.74	3%	11%
Costs related to property insurance	893.58	1%	848.04	1%	5%
Lease costs	1,189.54	1%	1,092.19	1%	9%
Costs related to security provisions	1,692.98	2%	1,527.49	2%	11%
Electric energy transit services	1,740.50	2%	1,329.47	2%	31%
Other costs	4,226.41	4%	3,858.87	5%	10%
Total prime cost	**106,617.78**	**100%**	**84,174.33**	**100%**	**27%**

2.3.1. Depreciation of fixed assets

Compared with 2011, depreciation charges grew 48% in 2012.

The 2012 growth in depreciation costs occurred due to accrued depreciation from new power grid facilities commissioned within the framework of implementing the Company's investment program and the revaluation of fixed assets.

2.3.2. Purchase of energy and capacity

In 2012, costs related to the purchase of energy and capacity fell 4% compared with the similar period in the preceding year. This was due to the optimization of power flows and the ongoing energy saving program, which enabled the actual percentage of losses in Federal Grid Company's networks to be reduced to 4.24% and resulted in a RUR521 million decline in the costs related to the purchase of electric energy and capacity to compensate for transmission losses, compared with 2011.

2.3.3. Labor compensation costs and social expenses

The 14% growth in labor compensation costs and social expenses occurred due to: (1) an increase in the number of employees employed to ensure the functioning of commissioned electric grid facilities and (2) the quarterly indexation of production employees' salaries, which are performed in accordance with the actual growth in the consumer price index, in accordance with Tariff Agreement adopted by the Company and the policy of maintaining employees' real income level and (3) an increase in insurance premiums due to legislative changes (increased regulatory framework from RUR463 thousand to RUR512 thousand and the establishment of insurance premiums at a rate of 10% of the payments in excess of the limit value of the framework).

2.3.4. Repair and maintenance

The 3% increase in repair and maintenance costs in 2012 compared with 2011 occurred due to inflationary factors, as adjusted by savings via procurement procedures.

2.3.5. Cost of raw stuff and materials

In 2012, costs related to the purchase of raw stuff and materials grew 11% compared with 2011, which occurred due to increased costs for raw stuff and materials, fuel for vehicles due to inflationary factors, and the cost of work clothing, because of the growth in production staff, including for newly commissioned electric grid facilities.

2.3.6. Property insurance costs

In 2012, property insurance costs increased 5% due to the expansion of the list of insured production equipment (due to commissioning), as well as insurance for assets under construction.

2.3.7. Lease costs

In 2012, lease costs increased 9% compared with 2011. This was primarily due to an increase in lease payments under the contract for utilizing electric grid facilities of JSC Yantarenergo, a growth in the property lease costs for commissioned wireless communication networks. Also, there was an increase in land lease fees due to tariff indexation by local authorities.

2.3.8. Costs related to security provisions

The 11% year-on-year growth in costs related to security provisions was caused by an increase in the number of protected facilities, including for newly commissioned ones, as part of the Company's large-scale investment program, upgrading the physical security of facilities, introducing the Integrated Automated Security Management System (IASMS) at the Company's power facilities and Unified Security Control Center (USCC) and by implementing a program to protect UNEG facilities against terrorism.

2.3.9. Expenditures on electric energy transit services

In 2012, expenditures on electric energy transit services grew 31% compared with 2011, which was due to increased power flow through foreign energy systems, as well as a significant 16% indexation of tariffs for electric energy transit through the UES grids of Kazakhstan.

2.3.10. Other costs

In 2012, other costs grew 10% as compared with 2011, due to conducting a power survey (power audit) of electric grid facilities in the reporting year within the framework of the energy saving and efficiency program, as well as due to measures to establish protective zones.

2.4. Administrative costs

Cost element	2012	% of total	2011	% of total	Change, %.
Labor compensation costs and social expenses	2,240.30	23%	2,269.88	26%	-1.3%
Insurance premiums	309.11	3%	181.12	2%	71%
Information services and software-related costs	1,250.34	13%	1,199.94	14%	4%
Depreciation of fixed and non-tangible assets	1,247.54	13%	993.70	11%	26%
Property tax	1,286.99	13%	795.40	9%	62%
General production services	764.90	8%	667.40	8%	15%
Tangible costs	392.18	4%	335.80	4%	17%
Lease costs	668.22	7%	543.80	6%	23%
Insurance costs	6.66	0.1%	6.30	0.1%	5.7%
Costs related to security provisions	52.13	0.5%	40.90	0.5%	27%
Telecommunication services	367.31	4%	303.30	3%	21%
Consultancy services	115.90	1%	302.50	3%	-62%
R&D costs	142.84	1%	201.90	2%	-29%
Other costs	1,010.63	10%	884.09	10%	14%
Total administrative costs	**9,855.05**	**100%**	**8,726.03**	**100%**	**13%**
Administrative costs excluding depreciation charges	**7,320.52**		**6,936.93**		**6%**

2.4.1. Labor compensation costs and social expenses

PLabor compensation costs fell 1.3% in 2012 compared with 2011 due to optimizing the number of managerial staff.

2.4.2 Insurance premiums

In 2012, insurance premiums grew 71% as compared with 2011 due to legislative changes (an increase in the regulatory framework for insurance premiums from RUR463 thousand to RUR512 thousand and the establishment of insurance premiums at the rate of 10% of the payments in excess of the limit value of the framework).

2.4.3. Information services and software-related costs

During the reporting year, costs related to information services grew 4% due to commissioning new information programs that provide control over the Company's obligations and their compliance with financing limits.

2.4.4. Depreciation of fixed and non-tangible assets

The 26% increase in depreciation costs was caused by fixed asset revaluation.

2.4.5. Property tax

The 62% increase in property tax (compared with 2011) was caused by commissioning new UNEG facilities and revaluing fixed assets (in accordance with the accounting policy, the cost item in question fully reflects property tax, including the tax imposed on the Company's production assets).

2.4.6. Production services

The 15% growth in costs related to production services was caused by an increase in transportation costs not related to the transport of goods, legal services, with a simultaneous reduction in audit services at the end of competitive procedures, as well as advertising costs, including participation in exhibitions and fairs.

2.4.7. Tangible costs

The 17% growth in tangible costs in 2012 (compared with 2011) was caused by an increase in operating costs to maintain the backup data processing center, as well as intercom and video-conferencing maintenance costs.

2.4.8. Lease costs

The 23% increase in lease costs in 2012 compared with 2011 was due to increased spending on counter-lease contracts for fiber-optic communications and the change in contractual relationships with the owner of the leased building (9 Bolshoy Nikolovorobinskiy Lane), in terms of increasing the number of leased areas and their sub-leasing to JSC ECMC UES.

2.4.9. Insurance costs

The 5.7% growth in insurance costs compared with 2011 was caused by increased costs of liability insurance, associated with increased personal responsibility for members of the Board of Directors, members of the Management Board, the Chief Accountant and officials of Federal Grid Company, due to the planned implementation of numerous strategic transactions.

2.4.10. Communication services

The 21% increase in communication costs in 2012 compared with 2011 was caused by indexing communication operators' tariffs and commissioning new satellite communication systems.

2.4.11. Consulting services

The 62% decrease in consulting services occurred due to a reduction in the number of consulting companies involved and the performance of necessary work in-house by corporate employees.

2.4.12. Research and development (R & D) costs

The 29% decrease in R&D costs in 2012 (compared with 2011) was caused by a one-time write-off of R&D in 2011 with a positive result, on which patents were not issued.

2.4.13. Other administrative costs

The 14% increase in other administrative costs in 2012 (compared with 2011) was primarily caused by an increase in costs related to medical insurance and non-State retirement insurance to upgrade employees' social protection.

The growth of administrative costs (excluding depreciation charges and property tax) at the end of 2012 amounted to 6% compared with 2011, which corresponds to the inflation rate.

2.5. Profits from core operations

The 50.5% decrease in profits from core operations in 2012 compared with 2011 was caused by maintaining the Company's revenues at the 2011 level (an increase of 0.51%), which was due to the postponement of tariff indexation for electricity transmission from 1 January to 1 July, with a simultaneous growth rate in prime cost and administrative costs primarily due to increased costs, associated with the ownership of property - depreciation charges and property tax.

2.6. Interest receivable and interest payable

Interest receivable is composed of income generated by debt financing and revenues generated by depositing free cash in bank accounts and deposits. In 2012, the amount of interest income increased 5.7% compared with 2011 as a result of measures aimed at upgrading the efficiency of the Company's current assets management, which generated additional revenue in the amount of RUR227 million compared with 2011.

Due to changes in the Company's accounting policy, interest costs have been capitalized and included in the cost of construction titles since 2010. This explains why interest payable is not reflected in the corresponding line of the report.

2.7. Other income

Description	2012	2011	Change, RUR million	Change, %
Discharge of bills	96,734.8	77,486.0	19,248.8	24.8%
Income from the withdrawal of financial investments	-	78,669.8	-78,669.8	-100.0%
Income from bad debt reserve recovery	9,378.1	8 424.1	954.0	11.3%
Income from financial investment reserve recovery	37.8	2,892.4	-2,854.6	-98.7%
Charges, fines, penalties	776.3	771.4	4.9	0.6%
Previous years' earnings revealed in the reporting year	769.4	110.0	659.4	599.2%
Reserve recovery from a decrease in software licensing costs	-	661.2	-661.2	-100.0%
Revenues in the form of the cost of material assets, which were derived from the liquidation of fixed assets	563.3	410.9	152.4	37.1%
Extraordinary income from insured events	96.5	986.5	-890.0	-90.2%
Income from the revaluation of fixed assets	414.3	679.7	-265.4	-39.0%
Income from the realization of material assets	222.7	156.2	66.6	42.6%
Other income	183.28	186.19	-3.1	-1.7%
Total other income	**109,176.48**	**171,434.39**	**-62,257.9**	**-36.3%**

In 2012, the Company's other income decreased 36.3% compared with 2011, mainly due to the fact that the sale/exchange of generating companies' shares for shares of JSC Inter RAO UES was reflected in 2011 operations.

2.8. Other costs

Description	2012	2011	Change, RUR million	Change, %
Costs associated with the withdrawal of financial investments	-	79,186.7	-79,186.7	-100%
Discharge of bills	96,734.8	77,501.5	19,233.3	25%
Bad debt reserves	19,355.3	20,151.3	-796.0	-4%
Negative difference from the mark-to-market revaluation of shares	17,031.5	24,822.9	-7 791.4	-31%
Reserve for the devaluation of financial investments	9,564.2	1,590.9	7,973.4	501%
Costs associated with the revaluation of fixed assets	1,794.5	2,247.3	-452.8	-20%
Write-off of fixed assets and construction in progress	1,735.4	698.1	1 037.3	2.4 times
Losses associated with emergency conditions	864.4	94.2	770.2	9 times
Previous years' earnings revealed in the reporting year	734.1	125.9	608.2	5.8 times
Costs of securities issue and servicing	308.3	221.4	86.8	39%
Reserve for decreasing the cost of material assets	208.9	146.7	62.2	42%
Depreciated cost of write-offs and construction in progress and the cost of writing-off	33.6	26.4	7.1	27%
Other costs	1,787.17	2,649.23	-862.1	-33%
Total other costs	**150,152.17**	**209,462.53**	**-59,310.4**	**-28%**

In 2012, the Company's other costs decreased 28% compared with 2011 mainly due to the fact that the transaction involving the sale/exchange of generating companies' shares for shares of JSC Inter RAO UES were reflected in 2011, as well as the revaluation difference for the Company's financial investments, as reflected at the end of the reporting periods.

2.9. Income/ expense associated with the withdrawal of financial investments

In 2012, there was no financial results from the re-payment of third party bills (in 2011, expenses in the consolidated expression amounted to RUR516.8 million, mainly due to the fact that 2011 reflected a transaction involving the exchange of generating companies' shares for shares of JSC Inter RAO UES).

2.10. Revaluation of financial investments

In 2012, the Company reflected a negative difference from the mark-to-market revaluation of shares. The negative difference amounted to RUR17,031.5 million. This was mainly due to the revaluation of OJSC Inter RAO UES shares, which were on the Company's balance at market value.

In addition, in 2012, the Company undertook measures to establish/recover a reserve for the devaluation of financial investments (not subject to revaluation at market value). The balance was RUR9,526.4 million (mostly on LLC Energo-Finans' bills and equity investments in shares of JSC Mobile GTES).

2.11. Provisions for the impairment of accounts receivable

BIn 2012, based on an evaluation of accounts receivable and the probability that these accounts would be re-paid, the Company established a bad debt reserve in the amount of RUR19.355 million and also recovered a reserve in the amount of RUR9.378 million, which had been established in 2011. A negative financial result from the above-mentioned operations amounted to RUR9.977 million, including:

The balance of the establishment and the recovery of the reserve for bills owned by LLC Index of Energy of Federal Grid Company, which amounted to (+) RUR6.904 million;

A reserve for interest on bills owned by LLC Energo-Finans in the amount of (+) RUR4.621 million was established;

The balance of the establishment and recovery of the reserves mainly for the service contracts for electricity transmission through the UNEG, which amounted to (-) RUR1.548 million.

In 2011, the financial result from the recovery and establishment of bad debt reserves amounted to RUR11,727.19 million (the recovered reserve was RUR8,424.10 million, whereas the established reserve totaled RUR20,151.29 million).

2.12. Current profit tax

Compared with the previous year, in 2012, total profit tax fell 82.5% to amount to RUR1,470.68 million. The change in profit tax was caused by an increase in the value of depreciation charges, which are deductible in tax accounting, due to the large inputs of power grid facilities in fixed assets.

2.13. Net profit (loss) in the reporting period

The Company's FY 2012 loss amounted to RUR24,501.9 million (whereas, the 2011 loss was RUR2,468.4 million). The Company's loss occurred due to the following factors:

— A write-off of negative difference resulting from the revaluation of securities, listed on the market, at market value (mostly JSC Inter RAO UES) in the amount of RUR17,031.5 million;

— A negative balance of operations involving the establishment and recovery of reserves for the devaluation of financial investment (not subject to revaluation at the market value), which amounted to RUR9,526.4 million (mostly on bills owned by LLC Energo-Finans and equity investments in the shares of JSC Mobile GTES);

— A negative balance of operations involving the establishment and recovery of bad debt reserves in the amount of RUR9,977.2 million (mainly due to the revaluation of energy companies' shares which were on the balance of the Index of Energy of Federal Grid Company and interest on LLC Energo-Finans' bills).

3. The Company's net assets

According to accounting report data, in 2012, the value of Federal Grid Company's net assets decreased RUR3,923.7 million compared with the similar period in 2011 and by RUR2,895.6 million, according to an evaluation based on assumptions.

	2011		2012	
Index	Nominal*	Taking into account contributions to authorized capital**	Nominal*	Taking into account contributions to authorized capital**
Value of net assets, RUR million	853,801.14	856,020,4	849,877.49	853,124.79

*Evaluation based on data from the accounting reports;

** In 2011 and 2012, the authorized capital of Federal Grid Company increased via the issue of additional shares. This led to the inclusion of running debts to founding members in regard to contributions to the authorized capital into accounts payable reflected in accounting reports among other short-term liabilities. Once the report on the issue of additional shares is registered with the Russian Federal Financial Markets Services, the debt in question will be included in the Company's authorized capital. Evaluation of the value of net assets is specified taking into account the inclusion of debt in regard to contributions to authorized capital in the Company's own capital. Debt amounted to RUR2,219.2 million in 2011 and RUR3,247.3 million in 2012.

4. Cash flow

4.1. General information on the Company's cash flow generated by core, investment and financial operations

On 31 December 2012, the Company's total cash was RUR17,527.6 million (compared with RUR17,247.7 million on 31 December 2011).

The receipts and expenses analysis below was based on management accounting of corporate cash flow, taking into account mutually exclusive turnovers on deposits and dissolved contracts for electric energy transmission services.

In 2012, the Company physically received cash in the amount of RUR313.794 million, which is RUR20.246 million less than 2011. Compared with 2011, actual payments effected by the Company decreased RUR14.523 million to stand at RUR313.513 million.

The table below contains information on the Company's cash flows associated with core, investment and financial operations during the corresponding periods.

	Total		For type of activity					
			Business operations		Investments		Financing	
Indices	2012	2011	2012	2011	2012	2011	2012	2011
Receipts	313,794	334,040	167,696	169,738	61,475	82,752	84,623	81,551
Payments	313,513	328,036	67,220	70,544	234,639	246,493	11,654	10,999
Balance	281	6,004	100,476	99,194	-173,164	-163,741	72,969	70,552

The financing of investment programs for other power grid facility owners (based on contractor agreements) in 2012 amounted to RUR363 million, expenses for the purchase of fixed assets for production needs amounted to RUR852 million, whereas expenses for the purchase of financial investments during the year to deposit temporarily free cash amounted to RUR52.009 million. Dividends were not paid out for the year.

4.2. Cash from running operations

During FY 2012, cash received from running operations decreased RUR2.042 million (-1.2%) compared with the preceding year.

The decrease was mainly due to a RUR2,855 million decline in refunds from previously paid taxes (VAT) in 2012 compared with 2011, as well as a cutback in the amounts paid by consumers for corporate services and factors presented in the Section entitled, "Receipts from power transmission services".

In 2012, the amount of cash spent to finance running operations decreased RUR3.324 million (-4.7%) compared with 2011. This occurred due to a reduction in profit tax payments by RUR8.008 million, a decline in the payment for electric energy to cover losses for its transmission by RUR1.016 million and an increase in the payments for operating expenses by RUR5.700 million, including property tax.

4.3. Cash used in investment operations

Cash received from investment operations decreased RUR21.277 million in 2012 compared with 2011, due to a decline in receipts associated with the withdrawal of short-term financial investments (bills).

Compared with 2011, cash payments associated with investment operations decreased RUR11.854 million, including RUR7.266 million to finance the Company's investment budget (including RUR4,817.4 million to finance the investment program). The main directions of financing and the financing sources for the investment program are presented in the "Investments" section.

Also in 2011, 2010 dividends in the amount of RUR2.578 million were paid out to Company shareholders. In 2011, the Company had a loss. Dividends were not paid out in 2012.

JSC “FGC UES”

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU

FOR THE YEAR ENDED 31 DECEMBER 2012

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Joint Stock Company «Federal Grid Company of Unified Energy System» (JSC FGC UES):

We have audited the accompanying consolidated financial statements of JSC FGC UES and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2012, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

ZAO PricewaterhouseCoopers Audit

22 April 2013

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Consolidated Statement of Financial Position
(in millions of Russian Roubles unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,096,535	980,677
Intangible assets	7	9,319	6,973
Investments in associates	8	1,403	910
Available-for-sale investments	9	50,617	69,979
Long-term promissory notes	10	1,457	14,928
Other non-current assets	11	4,498	1,039
Total non-current assets		**1,163,829**	**1,074,506**
Current assets			
Cash and cash equivalents	12	24,056	25,627
Bank deposits	13	980	1,184
Short-term promissory notes	10	23,380	20,737
Loans given		38	448
Accounts receivable and prepayments	14	38,808	32,944
Income tax prepayments		2,143	1,911
Inventories	15	7,007	6,320
Total current assets		**96,412**	**89,171**
TOTAL ASSETS		**1,260,241**	**1,163,677**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	16	630,193	627,974
Treasury shares	16	(4,917)	(5,522)
Share premium	16	10,501	10,501
Reserves	16	313,117	314,323
Accumulated deficit		(41,831)	(49,962)
Equity attributable to shareholders of FGC UES		**907,063**	**897,314**
Non-controlling interest		733	793
Total equity		**907,796**	**898,107**
Non-current liabilities			
Deferred income tax liabilities	17	80,615	80,572
Non-current debt	18	193,200	130,778
Retirement benefit obligations	19	5,164	4,686
Total non-current liabilities		**278,979**	**216,036**
Current liabilities			
Accounts payable to shareholders of FGC UES	16	3,257	2,275
Current debt and current portion of non-current debt	20	23,218	2,002
Accounts payable and accrued charges	21	46,816	44,974
Income tax payable		175	283
Total current liabilities		**73,466**	**49,534**
Total liabilities		**352,445**	**265,570**
TOTAL EQUITY AND LIABILITIES		**1,260,241**	**1,163,677**

Authorised for issue and signed on behalf of the Management Board:

22 April 2013

Chairman of the Management Board — O.M. Budargin

Head of Accounting and Financial Reporting – Chief Accountant — A.P. Noskov

Consolidated Statement of Comprehensive Income
(in millions of Russian Roubles unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenues	22	140,313	139,571
Other operating income	22	3,543	7,793
Operating expenses	23	(110,630)	(100,750)
Gain on disposal of available-for-sale investments	24	-	31,115
Loss on re-measurement of assets held for sale	24	-	(4,718)
Reversal of impairment / (impairment) of property, plant and equipment, net	6	53	(1,174)
Operating profit		**33,279**	**71,837**
Finance income	25	4,113	3,957
Finance costs	26	(214)	(278)
Impairment of available-for-sale investments	9	(18,941)	(12,661)
Impairment of promissory notes, net	10	(9,772)	-
Reversal of impairment of investments in associates	8	313	-
Share of result of associates	8	21	8
Profit before income tax		**8,799**	**62,863**
Income tax	17	(1,756)	(13,875)
Profit for the year		**7,043**	**48,988**
Other comprehensive income			
Change in fair value of available-for-sale investments	9, 16	(19,362)	(24,952)
Accumulated gain on available-for-sale investments recycled to profit or loss	24	-	(31,115)
Impairment of available-for-sale investments recycled to profit or loss	9, 16	18,941	12,661
Change in revaluation reserve for property, plant and equipment in associates	8	209	-
Foreign currency translation difference	8	(50)	66
Income tax recorded directly in other comprehensive income	17	84	8,372
Other comprehensive loss for the year, net of income tax		**(178)**	**(34,968)**
Total comprehensive income for the year		**6,865**	**14,020**
Profit / (loss) attributable to:			
Shareholders of FGC UES	27	7,103	49,139
Non-controlling interest		(60)	(151)
Total comprehensive income / (loss) attributable to:			
Shareholders of FGC UES		6,925	14,171
Non-controlling interest		(60)	(151)
Earning per ordinary share for profit attributable to the shareholders of FGC UES – basic and diluted (in Russian Roubles)	27	**0.006**	**0.040**

Consolidated Statement of Cash Flows
(in millions of Russian Roubles unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**8,799**	**62,863**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	23	43,908	33,187
Loss / (gain) on disposal of property, plant and equipment	23	1,210	(617)
Amortisation of intangible assets	23	571	865
(Reversal of impairment) / impairment of property, plant and equipment, net	6	(53)	1,174
Impairment of available-for-sale investments	9	18,941	12,661
Impairment of promissory notes, net	10	9,772	-
Reversal of impairment of investments in associates	8	(313)	-
Gain on disposal of available-for-sale investments	24	-	(31,115)
Loss on re-measurement of assets held for sale	24	-	4,718
Share of result of associates	8	(21)	(8)
(Reversal) / accrual of allowance for doubtful debtors	23	(1,405)	4,305
Write-off of accounts payable	22	(51)	(2,753)
Share-based compensation	16, 23	605	1,342
Finance income	25	(4,113)	(3,957)
Finance costs	26	214	278
Other non-cash operating expense		14	69
Operating cash flows before working capital changes and income tax paid		**78,078**	**83,012**
Working capital changes:			
Increase in accounts receivable and prepayments		(8,293)	(6,828)
Increase in inventories		(689)	(753)
Increase in other non-current assets		(288)	(12)
Increase in accounts payable and accrued charges		2,951	2,662
Increase in retirement benefit obligations		517	447
Income tax paid		(1,970)	(9,883)
Net cash generated by operating activities		**70,306**	**68,645**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(150,431)	(153,471)
Proceeds from disposal of property, plant and equipment		1,309	1,431
Purchase of intangible assets		(2,917)	(1,649)
Purchase of promissory notes		(52,000)	(52,300)
Redemption of promissory notes		55,535	75,098
Investment in bank deposits		(3,520)	(6,386)
Redemption of bank deposits		3,724	9,808
Dividends received		20	45
Interest received		2,569	2,681
Net cash used in investing activities		**(145,711)**	**(124,743)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from share issuance	16	3,247	2,220
Proceeds from non-current borrowings		82,500	80,000
Proceeds from current borrowings		-	105
Repayment of current borrowings		(105)	(6,505)
Repayment of lease		(150)	(126)
Dividends paid		-	(2,543)
Interest paid		(11,658)	(4,999)
Net cash generated by financing activities		**73,834**	**68,152**
Net (decrease) / increase in cash and cash equivalents		**(1,571)**	**12,054**
Cash and cash equivalents at the beginning of the year	12	**25,627**	**13,573**
Cash and cash equivalents at the end of the year	12	**24,056**	**25,627**

Consolidated Statement of Changes in Equity
(in millions of Russian Roubles unless otherwise stated)

		Attributable to shareholders of FGC UES							
	Notes	**Share capital**	**Share premium**	**Treasury shares**	**Reserves**	**Accumu-lated deficit**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2012		**627,974**	**10,501**	**(5,522)**	**314,323**	**(49,962)**	**897,314**	**793**	**898,107**
Comprehensive income for the year									
Profit / (loss) for the year		-	-	-	-	7,103	**7,103**	(60)	**7,043**
Other comprehensive income, net of related income tax									
Change in revaluation reserve for property, plant and equipment	16	-	-	-	(1,028)	1,028	**-**	-	**-**
Change in revaluation reserve for property, plant and equipment of associates	8, 16	-	-	-	209	-	**209**	-	**209**
Change in fair value of available-for-sale investments	9, 16	-	-	-	(15,489)	-	**(15,489)**	-	**(15,489)**
Accumulated loss on available-for-sale investments recycled to profit or loss	9, 16	-	-	-	15,152	-	**15,152**	-	**15,152**
Foreign currency translation difference	8, 16	-	-	-	(50)	-	**(50)**	-	**(50)**
Total other comprehensive income / (loss)		***-***	***-***	***-***	***(1,206)***	***1,028***	***(178)***	***-***	***(178)***
Total comprehensive income / (loss) for the year		-	-	-	(1,206)	8,131	**6,925**	(60)	**6,865**
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	16	2,219	-	-	-	-	**2,219**	-	**2,219**
Share-based compensation	16	-	-	605	-	-	**605**	-	**605**
Total transactions with shareholders of FGC UES		2,219	-	605	-	-	**2,824**	-	**2,824**
As at 31 December 2012		**630,193**	**10,501**	**(4,917)**	**313,117**	**(41,831)**	**907,063**	**733**	**907,796**

JSC "FGC UES"

Consolidated Statement of Changes in Equity
(in millions of Russian Roubles unless otherwise stated)

	Notes	Attributable to shareholders of FGC UES						Non-controlling interest	Total equity
		Share capital	Share premium	Treasury shares	Reserves	Accumulated deficit	Total		
As at 1 January 2011		**616,781**	**10,501**	**(6,864)**	**361,267**	**(108,525)**	**873,160**	**944**	**874,104**
Comprehensive income for the year									
Profit / (loss) for the year		-	-	-	-	49,139	**49,139**	(151)	**48,988**
Other comprehensive income, net of related income tax									
Change in revaluation reserve for property, plant and equipment	16	-	-	-	(1,227)	1,227	**-**	-	**-**
Change in fair value of available-for-sale investments	9, 16	-	-	-	(19,961)	**-**	**(19,961)**	-	**(19,961)**
Change in revaluation reserve for property, plant and equipment of associates (previously classified as non-current assets held for sale)	16, 24	-	-	-	(10,749)	10,749	**-**	-	**-**
Accumulated gain on available-for-sale investments recycled to profit or loss	16, 24	-	-	-	(15,073)	-	**(15,073)**	-	**(15,073)**
Foreign currency translation difference	8, 16	-	-	-	66	-	**66**	-	**66**
Total other comprehensive income / (loss)		-	-	-	*(46,944)*	*11,976*	***(34,968)***	-	***(34,968)***
Total comprehensive income / (loss) for the year		-	-	-	(46,944)	61,115	**14,171**	(151)	**14,020**
Transactions with shareholders of FGC UES recorded directly in equity									
Issue of share capital	16	11,193	-	-	-	-	**11,193**	-	**11,193**
Dividends declared	16	-	-	-	-	(2,552)	**(2,552)**	-	**(2,552)**
Share-based compensation	16	-	-	1,342	-	-	**1,342**	-	**1,342**
Total transactions with shareholders of FGC UES		11,193	-	1,342	-	(2,552)	**9,983**	-	**9,983**
As at 31 December 2011		**627,974**	**10,501**	**(5,522)**	**314,323**	**(49,962)**	**897,314**	**793**	**898,107**

Note 1. JSC “FGC UES” and its operations

Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”). As at 31 December 2012, FGC UES is 79.55% owned and controlled by the Government of the Russian Federation (the “RF”), the remaining shares are traded on MICEX-RTS and as Global depository receipts on the London Stock Exchange.

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. Majority of the Group’s revenues is generated via tariffs for electricity transmission, which are approved by the Russian Federal Tariff Service (the “FTS”) based on Regulatory Asset Base (“RAB”) regulation. FGC UES's main customers are distribution grid companies (“IDGCs”), certain large commercial end customers and retail electricity supply companies.

On 11 July 2012, an agreement was signed whereby the Executive functions of OJSC “IDGC Holding” (renamed to OJSC “Russian Grids” in April 2013) were transferred to FGC UES. Due to the regulated nature of business of OJSC “IDGC Holding” and since there is no transfer of risk and rewards from this assignment, OJSC “IDGC Holding” is not consolidated with the Group.

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

Relationships with the state. The Government of the RF is the majority owner of FGC UES and the ultimate controlling party. The Government directly affects the Group's operations via regulation over tariff by the FTS and its investment program is subject to approval by both the FTS and the Ministry of Energy. Ultimately the Government supports the Group due to its strategic position in the Russian Federation. The Government's economic, social and other policies could have a material impact on the Group’s operations.

Business environment. The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the RF, which display characteristics of an emerging market. The legal, tax and regulatory framework continue to develop, but are subject to varying interpretations and frequent changes which contribute to the challenges faces by entities operating in the RF (Note 28). These consolidated financial statements (“Consolidated Financial Statements”) reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

Note 2. Basis of preparation

Statement of compliance. These Consolidated Financial Statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”) and its interpretations as adopted by the European Union (the “EU”).

Until 31 December 2011 the Group prepared its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board (the “IASB”). For the reporting periods beginning on or after 1 January 2012, the Group will also prepare the consolidated financial statements in accordance with IFRS as adopted by the EU for filing with EU regulatory organisations. Any differences between IFRS as issued by the IASB and IFRS as adopted by the EU do not have material effect on the Group’s consolidated financial statements, therefore the consolidated financial statements prepared in accordance with IFRS as adopted by the EU is a continuation of the consolidated financial statements prepared in accordance with IFRS as issued by the IASB; IFRS 1 “First time adoption of IFRS” is not applicable.

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the RF (“RAR”). The accompanying Consolidated Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

Functional and presentation currency. The Russian Rouble (“RR”) is functional currency for FGC UES and the currency in which these Consolidated Financial Statements are presented. All financial information presented in RR have been rounded to the nearest million, unless otherwise stated.

Note 2. Basis of preparation (continued)

New accounting developments. There are no new standards, interpretations or amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2012 and would be expected to have a material impact on the Group.

There are a number of new standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2013 and have not been applied in preparing these Consolidated Financial Statements. None of these is expected to have a significant effect on these Consolidated Financial Statements, except the following:

- *Amendment to IAS 1 "Financial statement presentation"*, regarding other comprehensive income. The change requires the grouping of items presented in other comprehensive income on the basis of whether they are subsequently potentially reclassifiable to profit or loss.
- *IFRS 10 "Consolidated financial statements"*, builds on existing principles by identifying the concept of control as the determining factor whether an entity should be consolidated. The standard provides additional guidance to assist in the determination of control. The Group has yet to assess full impact of IFRS 10 and intends to adopt the standard no later than 1 January 2014.
- *IFRS 13 "Fair value measurement"*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of value measurement and disclosure requirements for use across IFRSs.

There are no other standards or interpretations that are not yet effective and would be expected to have a material impact on the Group.

Going concern. These Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

Critical accounting estimates and assumptions. Management makes a number of estimates and assumptions that are continually evaluated and may differ from the related actual results. The estimates and assumptions that have the most significant effect on the amounts recognised in these Consolidated Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Carrying value of property, plant and equipment. The Group uses the revaluation model for property, plant and equipment. The last external valuation was performed as at 31 December 2009 (Note 6). This valuation using the depreciated replacement cost methodology was capped by the income approach. Since there have been no significant changes in the income projections for the Group, no current valuation has been performed.

Carrying value of investment in OJSC "INTER RAO UES". As at 31 December 2012 the Group owns 18.57% of the voting shares of OJSC "INTER RAO UES" ("INTER RAO"). Management has assessed the level of influence that the Group has on INTER RAO, taking into account its inability to obtain any additional financial information which may be required to execute this influence, and determined that it did not amount to significant influence. Consequently, this investment is classified as available-for-sale investment (Note 9).

Decline in the fair value of available-for-sale equity investments (Note 9). The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price and trend in share price movements during the period of analysis. As at 31 December 2012, the decline in fair value of INTER RAO shares below cost is considered significant and prolonged and therefore the Group recorded an impairment of RR 18,941 million in the Consolidated Statement of the Comprehensive Income.

*Carrying value of LLC "ENERGO-finance" promissory notes (Note 10)****.*** As at 31 December 2012 management re-assessed the recoverable amount of long-term promissory notes issued by LLC "ENERGO-finance" and guaranteed by Rusenergo Fund Ltd, which invests in the Russian utilities stock market. The recoverability of these promissory notes depends on the performance of the underlying Russian utilities' stocks. Actual 2012 stock market returns significantly underperformed resulting in reduction of net assets of Rusenergo Fund Ltd and worsening its future cash flow projections. Therefore, management concluded that these promissory notes were not recoverable as at 31 December 2012 and accordingly were fully impaired.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in the consolidated financial statements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 28.

Note 3. Summary of significant accounting policies

Principles of consolidation. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in the consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings within equity.

Associates. Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition and is reduced by accumulated impairment losses, if any. The Group discontinues the use of the equity method of accounting from the date when it ceases to have significant influence in the associate.

The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss, and its share of other comprehensive income of associates is recognised in the Group's other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Classification of financial assets. The Group holds financial assets of the following measurement categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Classification of financial liabilities. The Group's financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. The Group's financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(in millions of Russian Roubles unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

Available-for-sale investments. The Group classifies investments as available-for-sale at the time of purchase. Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the period.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments.

Any change in fair value of equity instruments is initially accumulated in other comprehensive income. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. If asset is considered to be impaired at the reporting date, the cumulative impairment loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss) is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss.

Foreign currency. Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Roubles at the official exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

As at 31 December 2012, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar was RR 30.37:US Dollar 1.00 (31 December 2011: RR 32.20:US Dollar 1.00); between the Russian Rouble and Euro: RR 40.23:Euro 1.00 (31 December 2011: RR 41.67:Euro 1.00).

Property, plant and equipment. Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which is determined using the fair value at the end of the reporting period. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and increase the revaluation reserve in equity; the increase is recognised in current period profits to the extent that it reverses previously recognised impairment loss of the same assets.

Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity; all other decreases are recognised in profit or loss for the period. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the assets, and the net amount is restated to the revalued amount of the asset.

The revaluation reserve in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

Renewals and improvements are capitalised and the assets replaced are retired. The cost of minor repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	25-60
Electric power transmission grids	30-50
Substations	15-35
Other	5-20

Note 3. Summary of significant accounting policies (continued)

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised as current period loss to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets. All of the Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

Cash and cash equivalents. Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Bank deposits. Bank deposits comprise cash deposited at banks with a maturity date of more than three months from the acquisition date. Bank deposits are carried at amortised cost using the effective interest method.

Promissory notes. Promissory notes are financial assets with fixed or determinable cash flows recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are recorded inclusive of value added tax (VAT). Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in profit or loss.

Note 3. Summary of significant accounting policies (continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories mostly include repair materials and spare parts for transmission assets. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis and disclosed as an asset or liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as ‘non-current assets held for sale’ if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Income taxes. Income taxes have been provided for in these Consolidated Financial Statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits/losses for the current and prior periods. Taxes other than on income are recorded as operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Note 3. Summary of significant accounting policies (continued)

The Group's uncertain tax positions are reassessed by management at each end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Trade accounts payable and accrued charges. Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract. Accounts payable are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Advances received. Advances received are primarily a deferred income for the future connection services and are stated at nominal amount.

Debt. Debt is recognised initially at its fair value plus transaction costs that are directly attributable to its issue. Fair value is determined using the prevailing market rates of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation.

Borrowing costs are expensed in the period in which they are incurred if not related to purchase or construction of qualifying assets. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets. The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Pension and post-employment benefits. In the normal course of business the Group makes mandatory social security contributions to the Pension Fund of the RF on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post-employment and other long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group’s employees. Under the pension plan amount of pension benefits that an employee will receive after retirement dependents on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension through a non-state pension fund. However, the assets held in the non-state pension fund do not meet definition of plan assets in accordance with IAS 19. These assets are accounted for as other non-current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided when they are due directly by the Group.

The liability recognised in the consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rate of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

With regard to post-employment benefits, actuarial gains and losses in excess of 10% of the defined benefit obligation are recognised as an expense over the average remaining working life of employees. Past service costs are recognised immediately as an expense in the consolidated statement of comprehensive income to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses and past service costs related to other long-term employee benefits are recognised as an expense in the consolidated statement of comprehensive income when they arise.

Note 3. Summary of significant accounting policies (continued)

Share-based compensation. The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of FGC UES. The fair value of options granted to employees is recognised as an employee benefit expense, with a corresponding increase in equity, over the period that employees become unconditionally entitled to the options (vesting period). At the end of each reporting period the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in the profit or loss, with a corresponding adjustment to equity.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Treasury shares. Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

Dividends. Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the consolidated financial statements are authorised for issue.

Non-controlling interest. Non-controlling interest represents minority's proportionate share of the equity and comprehensive income of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of non-controlling interests. The Group uses the 'economic entity' approach to the recognition of non-controlling interest. Any gains or losses resulting from the purchases and sales of the non-controlling interests are recognised in the consolidated statement of changes in equity.

Revenue recognition. Revenue amounts are presented exclusive of value added tax. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue from sales of electricity is recognised on the delivery of electricity. Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network and is recognised when the customer is connected to the grid network.

Share capital. Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting period.

(in millions of Russian Roubles unless otherwise stated)

Note 4. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation.

The principal subsidiaries as at 31 December 2012 and 31 December 2011 are presented below:

	31 December 2012		31 December 2011	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Transmission companies:				
OJSC “The Kuban trunk grids”	49.0	49.0	49.0	49.0
OJSC “The Tomsk trunk grids”	52.0	59.9	52.0	59.9
Other companies				
OJSC “Nurenergo”	77.0	77.0	77.0	77.0
OJSC “Mobile gas-turbine electricity plants”	100.0	100.0	100.0	100.0
OJSC “Research and development centre of FGC UES”	100.0	100.0	100.0	100.0
OJSC “Dalenergosetproject”	100.0	100.0	100.0	100.0
OJSC “Specialised electricity transmission service company of the UNEG”	100.0	100.0	100.0	100.0
OJSC “Engineering and construction management centre of Unified Energy System”	100.0	100.0	100.0	100.0
LLC “Index energetiki – FGC UES”	100.0	100.0	100.0	100.0

Transmission companies. OJSC “The Kuban trunk grids” and OJSC “The Tomsk trunk grids” own the UNEG assets which are maintained and operated by the Company.

OJSC “Nurenergo” performs electricity distribution and sale activity in the Republic of Chechnya. Due to the difficult operating environment in the Republic of Chechnya, OJSC “Nurenergo” has negative net assets.

OJSC “Mobile gas-turbine electricity plants”. The primary activity of the company is generating and sale of electricity provided by mobile gas-turbine electricity plants used in power deficient points of the power system or in peak periods as temporary source of additional capacity.

OJSC “Research and development centre of FGC UES” is a research and development project institution in the sphere of electric power.

OJSC “Dalenergosetproject” is a grid engineering company.

OJSC “Specialised electricity transmission service company of the UNEG”. The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of the UNEG.

OJSC “Engineering and construction management centre of Unified Energy System”. The main activity of this company is functioning as a customer-developer in capital construction projects associated with the reconstruction and technical modernisation of electricity supply facilities and infrastructure.

LLC “Index energetiki – FGC UES” (“Index Energetiki”) owns minority shares in OJSC “INTER RAO UES” and OJSC “Russian Grids” (former OJSC “IDGC Holding”).

Note 5. Balances and transactions with related parties

Government-related entities. In the normal course of business the Group enters into transactions with government-related entities – entities, controlled, jointly controlled or significantly influenced by the Government of the RF. Large portion of the Group's primary activity – transmission services are rendered to government-related entities at the regulated tariffs. The Group borrows funds from government-related banks at the prevailing market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the years ended 31 December 2012 and 31 December 2011 the Group had the following significant transactions with government-related entities:

	Year ended 31 December 2012	**Year ended 31 December 2011**
Transmission revenue	119,024	120,247
Electricity sales	726	876
Connection services	212	373
Purchased electricity for production needs	6,615	6,910

(in millions of Russian Roubles unless otherwise stated)

Note 5. Balances and transactions with related parties (continued)

Significant balances with government-related entities are presented below:

	31 December 2012	31 December 2011
Cash and cash equivalents	9,637	20,464
Bank deposits	300	390
Long-term promissory notes	101	3,836
Short-term promissory notes	17,264	14,680
Loans given	9	430
Trade receivables (net of allowance for doubtful debtors of RR 2,508 million as at 31 December 2012 and RR 3,931 million as at 31 December 2011)	15,806	10,161
Available-for-sale investments	50,617	69,979
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	2,106	2,764
Accounts payable to the shareholders of FGC UES	(3,257)	(2,275)
Non-current debt	(35,700)	(25,778)
Current debt	(183)	(227)
Accounts payable and accrued charges	(15,137)	(11,503)

As at 31 December 2012 the Group had long-term undrawn committed financing facilities with government-related banks of RR 70,000 million (as at 31 December 2011: 60,000) (Note 18). There were no short-term undrawn committed financing facilities with government-related banks as at 31 December 2012 (as at 31 December 2011: RR 15,000 million) (Note 20).

Tax balances and charges are disclosed in Notes 17, 21 and 23. Tax transactions are disclosed in the Consolidated Statement of Comprehensive Income.

Directors’ compensation. Compensation is paid to the members of the Management Board for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. Also, additional medical coverage is provided to the members of Management Board and their close family members.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the year ended 31 December 2012 and 31 December 2011 was as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Short-term compensation, including salary and bonuses	341	416
Post-employment benefits and other long-term benefits	10	12
Share-based compensation	326	638
Total	**677**	**1,066**

The amount of the short-term compensation to members of the Management Board represents remuneration accrued during the respective period, including bonuses based on the results of the preceding financial year.

No remuneration was provided to the members of the Board of Directors for the year ended 31 December 2012 (for the year ended 31 December 2011: RR 7 million).

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment

	Buildings	Power trans-mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2012	16,173	481,535	200,419	325,009	23,460	1,046,596
Additions	1,360	180	1,341	155,300	4,051	162,232
Transfers	1,603	73,267	85,700	(164,649)	4,079	-
Disposals	(5)	(114)	(1,917)	(883)	(240)	(3,159)
Reversal of impairment provision	-	-	-	384	-	384
Balance as at 31 December 2012	19,131	554,868	285,543	315,161	31,350	1,206,053
Including PPE under finance lease	-	-	2,273	-	914	3,187
Accumulated depreciation and impairment						
Balance as at 1 January 2012	(487)	(33,387)	(26,552)	(1,310)	(4,183)	(65,919)
Depreciation charge	(502)	(21,721)	(17,633)	-	(4,052)	(43,908)
Impairment loss	-	(116)	-	(155)	(60)	(331)
Disposals	-	18	529	-	93	640
Balance as at 31 December 2012	(989)	(55,206)	(43,656)	(1,465)	(8,202)	(109,518)
Including PPE under finance lease	-	-	(1,110)	-	(125)	(1,235)
Net book value as at 1 January 2012	15,686	448,148	173,867	323,699	19,277	980,677
Net book value as at 31 December 2012	18,142	499,662	241,887	313,696	23,148	1,096,535

	Buildings	Power trans-mission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Balance as at 1 January 2011	8,257	437,535	134,401	289,934	13,171	883,298
Additions	6,022	231	452	152,589	6,779	166,073
Transfers	1,905	43,909	67,453	(116,905)	3,638	-
Disposals	(11)	(140)	(1,887)	(609)	(128)	(2,775)
Balance as at 31 December 2011	16,173	481,535	200,419	325,009	23,460	1,046,596
Including PPE under finance lease	-	-	2,273	-	914	3,187
Accumulated depreciation and impairment						
Balance as at 1 January 2011	(213)	(16,151)	(13,256)	(332)	(2,118)	(32,070)
Depreciation charge	(276)	(17,249)	(13,577)	-	(2,085)	(33,187)
Impairment loss	-	-	-	(1,127)	(47)	(1,174)
Disposals	2	13	281	149	67	512
Balance as at 31 December 2011	(487)	(33,387)	(26,552)	(1,310)	(4,183)	(65,919)
Including PPE under finance lease	-	-	(1,051)	-	(53)	(1,104)
Net book value as at 1 January 2011	8,044	421,384	121,145	289,602	11,053	851,228
Net book value as at 31 December 2011	15,686	448,148	173,867	323,699	19,277	980,677

Borrowing costs of RR 12,969 million for the year ended 31 December 2012 were capitalised within additions (for the year ended 31 December 2011: RR 5,833 million). A capitalisation rate of 8.4% was used for the year ended 31 December 2012 (for the year ended 31 December 2011: 7.7%) to determine the amount of borrowing costs eligible for capitalisation, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding during the periods.

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2012 such advances amounted to RR 53,757 million net of specific impairment of RR 103 million (as at 31 December 2011: RR 69,504 million net of specific impairment RR 525 million).

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment. Land plots are classified together with items of property, plant and equipment located on them.

Revaluation. Property, plant and equipment was revalued at 31 December 2009. The revaluation was performed by independent appraisers on a depreciated replacement cost basis, except for most of administrative buildings which were valued on the basis of recent market transactions involving similar assets on arm’s length terms. The replacement cost for most power transmission lines, substations and construction in progress is based on their technical capabilities, construction costs and construction cost estimates. The cost to replace the majority of the Group’s equipment is measured on the basis of purchase agreements and manufacturers’ and selling companies’ price-lists. The depreciated replacement cost was tested for impairment using a profitability test with respect to each cash generating unit. The Group’s Transmission segment (Note 31) was considered as a single cash generating unit.

Recoverable amount of property, plant and equipment. The Group assessed the recoverable amount for transmission business at 31 December 2012. The following assumptions have been made as part of the impairment test for the companies involved in transmission activity:

- Revenue projections are based on the Group’s expectations of an increase of the rate of return on capital employed in view of the transfer to Regulatory Asset Base tariff regulation – up to 10% in 2014;
- The amount of expenditure for the period from 2013 through 2030 required for the maintenance of the current property, plant and equipment is assumed to be equal to the amount of such expenditure determined as allowable for the purpose of tariff regulation;
- A nominal pre-tax discount rate of 10.24% was determined based on the weighted average cost of capital.

The recoverable amount assessed for property, plant and equipment involved in transmission activity approximates its carrying value. Therefore, neither revaluation nor impairment of property, plant and equipment was recorded as at 31 December 2012. If the discount rate would be 0.5% higher the carrying amounts of property, plant and equipment would exceed the recoverable amount by approximately 1.4%.

For each class of property, plant and equipment stated at revalued amount in these Consolidated Financial Statements, the carrying amount that would have been recognised had the assets been carried under the historical cost basis is as follows:

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Net book value as at 31 December 2012	15,278	235,457	257,819	341,017	24,711	874,282
Net book value as at 31 December 2011	12,826	164,818	179,641	374,811	20,623	752,719
Net book value as at 31 December 2010	4,519	118,145	106,065	373,238	11,816	613,783

Impairment. For the year ended 31 December 2012 the Group recognised a net reversal of an impairment of property, plant and equipment in the amount of RR 53 million, which consisted of a net reversal of an impairment of RR 368 million related to advances to construction companies and suppliers of property, plant and equipment, an impairment of RR 188 million related to property, plant and equipment of OJSC “Nurenergo” and a specific impairment of RR 127 million related to construction in progress which cost is not expected to be recovered.

For the year ended 31 December 2011 the Group recognised a net impairment of property, plant and equipment in the amount of RR 1,174 million, which consisted of an impairment of RR 442 million related to advances to construction companies and suppliers of property, plant and equipment, an impairment of RR 302 million related to property, plant and equipment of OJSC “Nurenergo” and a specific impairment of RR 430 million related to construction in progress which cost is not expected to be recovered.

Leased property, plant and equipment. Included in property, plant and equipment are certain items under finance leases. As at 31 December 2012 the net book value of leased property, plant and equipment was RR 1,952 million (as at 31 December 2011: RR 2,083 million). The leased equipment is pledged as security for the lease obligations.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

Operating leases. The Group leases a number of land areas owned by the local government under operating lease. The expected lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2012	31 December 2011
Under one year	717	413
Between one and five years	1,503	1,146
Over five years	8,588	7,627
Total	**10,808**	**9,186**

The above lease agreements are usually signed for period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

As at 31 December 2012 the carrying value of property, plant and equipment leased out under operating lease was RR 4,142 million (as at 31 December 2011: RR 2,988 million).

Note 7. Intangible assets

	Corporate information management system (SAP R/3)	Other intangible assets	Total
Cost as at 1 January 2011	4,722	4,870	9,592
Accumulated amortisation	(1,021)	(1,721)	(2,742)
Accumulated impairment	(661)	-	(661)
Carrying value as at 1 January 2011	3,040	3,149	6,189
Additions	309	1,401	1,710
Disposals - cost	(661)	(157)	(818)
Disposals - accumulated amortisation	-	96	96
Amortisation charge	(320)	(545)	(865)
Write-off of previously impaired assets	661	-	661
Carrying value as at 31 December 2011	3,029	3,944	6,973
Cost as at 31 December 2011	4,370	6,114	10,484
Accumulated amortisation	(1,341)	(2,170)	(3,511)
Accumulated impairment	-	-	-
Carrying value as at 31 December 2011	3,029	3,944	6,973
Cost as at 1 January 2012	4,370	6,114	10,484
Accumulated amortisation	(1,341)	(2,170)	(3,511)
Carrying value as at 1 January 2012	3,029	3,944	6,973
Additions	547	2,389	2,936
Disposals - cost	(66)	(291)	(357)
Disposals - accumulated amortisation	66	272	338
Amortisation charge	(84)	(487)	(571)
Carrying value as at 31 December 2012	3,492	5,827	9,319
Cost as at 31 December 2012	4,851	8,212	13,063
Accumulated amortisation	(1,359)	(2,385)	(3,744)
Carrying value as at 31 December 2012	3,492	5,827	9,319

The Corporate information management system (SAP R/3) consists of several modules (parts) and related licences. As at 31 December 2012 only certain modules (parts) were placed in operation and are subject to amortisation. These modules are amortised during 5 years, on a straight-line basis. SAP R/3 includes development costs of RR 2,631 million as at 31 December 2012 (as at 31 December 2011: RR 2,496 million).

(in millions of Russian Roubles unless otherwise stated)

Note 7. Intangible assets (continued)

Other intangible assets include capitalised software development costs that meet the definition of an intangible asset of RR 1,515 million as at 31 December 2012 (as at 31 December 2011: RR 2,483 million).

As at 31 December 2012 and 31 December 2011 management assessed the recoverable amount of non-current assets of Transmission segment (Note 6), which includes most of the intangible assets of the Group. As a result of the assessment performed no impairment was identified as at those dates.

Note 8. Investments in associates

The movements in the carrying value of investments in associates are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Carrying value as at 1 January	910	348
Share of result of associates	21	8
Reversal of impairment of investments in associates	313	-
Property, plant and equipment revaluation reserve	209	-
Translation difference	(50)	66
Transfer from non-current assets held for sale	-	488
Carrying value as at 31 December	**1,403**	**910**

The carrying value of investments in associates is as follows:

	31 December 2012	31 December 2011
JSC UES “GruzRosEnergo”	1,036	557
Other associates	367	353
Total investments in associates	**1,403**	**910**

Remeasurement of the investment in JSC UES “GruzRosEnergo”. In 2007, the Group recognised an impairment of the investment in JSC UES “GruzRosEnergo” in the amount of RR 241 million. In 2010, this investment was reclassified as held for sale under IFRS 5 “Non-current assets held for sale and discontinued operations” (Note 24) and re-measured downwards by RR 72 million. In 2011, following its exclusion from the transaction with INTER RAO, the investment was reclassified back from assets held for sale to investments in associates.

In 2012, the Group received the results of an independent appraisal of property, plant and equipment of JSC UES “GruzRosEnergo”. According to it, the fair value of the Group’s interest in net assets of the entity increased, therefore the impairment provision in the total amount of RR 313 million was reversed. The remaining part of the increase (less share of result for the period and translation difference) was recognised as revaluation reserve for property, plant and equipment of the associate.

Note 9. Available-for-sale investments

	1 January 2012	Additions	Change in fair value**	Impairment charge	31 December 2012
OJSC “INTER RAO UES”	67,077	-	-	(18,941)	48,136
OJSC “Russian Grids”*	2,902	-	(421)	-	2,481
Total	**69,979**	**-**	**(421)**	**(18,941)**	**50,617**

	1 January 2011	Additions	Change in fair value**	Impairment charge	31 December 2011
OJSC “INTER RAO UES”	2,674	79,387	(2,323)	(12,661)	67,077
OJSC “Russian Grids”*	6,857	-	(3,955)	-	2,902
Total	**9,531**	**79,387**	**(6,278)**	**(12,661)**	**69,979**

* Former OJSC “IDGC Holding”.

** For the year ended 31 December 2012 change in fair value of these available-for-sale investments in the total amount of RR 19,362 million was recognised in other comprehensive income (for the year ended 31 December 2011: RR 18,939 million). The amount of RR 18,941 million was reclassified from other comprehensive income to profit or loss for the year ended 31 December 2012 (for the year ended 31 December 2011: RR 12,661 million).

(in millions of Russian Roubles unless otherwise stated)

Note 9. Available-for-sale investments (continued)

Available-for-sale investments valuation. The fair value of the available-for-sale financial instruments was determined based on the quoted market prices.

Impairment of investment in OJSC "INTER RAO UES". During the year ended 31 December 2012 the fair value of shares in INTER RAO continued to decline below cost. Management assessed these investments for impairment as at 31 December 2012 and concluded that there was evidence of a significant and prolonged decline in the fair value of equity investments below their cost. The fall in fair value of these investments during the reporting period amounted to RR 18,941 million, and the impairment recognised in other comprehensive income was recycled from equity to profit or loss.

Note 10. Promissory notes

	Effective interest rate	Due	31 December 2012	31 December 2011
Long-term promissory notes				
Bank promissory notes	7.3%-12.6%	2014-2015	928	1,794
Non-bank promissory notes	8.9%-12.6%	2014-2038	529	13,134
Total long-term promissory notes			**1,457**	**14,928**
Short-term promissory notes				
Bank promissory notes	6.1%-9.01%	2013	18,768	20,071
Non-bank promissory notes	8.9%-12.6%	2012-2013	4,612	666
Total short-term promissory notes			**23,380**	**20,737**

All promissory notes are denominated in Russian Roubles. As at 31 December 2012 and 31 December 2011 the fair value of promissory notes, determined using valuation technique, was RR 24,869 million and RR 35,731 million respectively. The valuation was mainly based on discounting of the future expected cash flows at the current market interest rate available for debtors with similar level of credit risk.

Included in long-term non-bank promissory notes are promissory notes of LLC "ENERGO-finance" which are fully impaired (carrying value as at 31 December 2011: RR 9,197 million) (Note 29). The amount of impairment provision was RR 12,022 million as at 31 December 2012 (as at 31 December 2011: RR 2,825 million).

Note 11. Other non-current assets

	31 December 2012	31 December 2011
Long-term trade receivables (net of allowance for doubtful debtors of RR 580 million as at 31 December 2012 and RR 108 million as at 31 December 2011)	3,382	116
Total financial assets	**3,382**	**116**
VAT recoverable	121	216
Other non-current assets	995	707
Total other non-current assets	**4,498**	**1,039**

Note 12. Cash and cash equivalents

	31 December 2012	31 December 2011
Cash at bank and in hand	20,022	18,925
Cash equivalents	4,034	6,702
Total cash and cash equivalents	**24,056**	**25,627**

Cash at bank and in hand	Rating	Rating agency	31 December 2012	31 December 2011
OJSC "Gazprombank"	BBB-	Standard & Poor's	7,857	150
OJSC "Alfa-Bank"	BB+	Standard & Poor's	6,297	1,065
OJSC "Bank "ROSSIYA"	BB-	Standard & Poor's	4,000	4,000
OJSC "Sberbank"	Baa1	Moody's	1,745	13,654
Other banks			118	51
Cash in hand			5	5
Total cash at bank and in hand			**20,022**	**18,925**

(in millions of Russian Roubles unless otherwise stated)

Note 12. Cash and cash equivalents (continued)

Cash equivalents include short-term investments in certificates of deposit:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2012	31 December 2011
OJSC "Sberbank"	5.3%-6.9%	Baa1	Moody's	3,539	5,420
OJSC "VTB bank"	7.8%-8.3%	BBB	Standard & Poor's	379	690
OJSC "Gazprombank"	7.6%-8.0%	BBB-	Standard & Poor's	35	550
Total certificates of deposit				**3,953**	**6,660**

There were no certificates of deposit denominated in foreign currency included in cash equivalents as at 31 December 2012 and 31 December 2011.

Note 13. Bank deposits

	Interest rate	Rating	Rating agency	31 December 2012	31 December 2011
OJSC "Alfa-Bank"	6.0%-9.3%	BB+	Standard&Poor's	680	794
OJSC "Sberbank"	8.3%	Baa1	Moody's	210	190
OJSC "Gazprombank"	8.6%-8.7%	BBB-	Standard&Poor's	90	-
OJSC "VTB bank"	5.6%	BBB	Standard&Poor's	-	200
Total bank deposits				**980**	**1,184**

The carrying amount of bank deposits approximates their fair value.

There were no bank deposits denominated in foreign currency as at 31 December 2012 and 31 December 2011.

Note 14. Accounts receivable and prepayments

	31 December 2012	31 December 2011
Trade receivables		
(net of allowance for doubtful debtors of RR 4,839 million as at 31 December 2012 and RR 6,570 million as at 31 December 2011)	20,512	12,036
Other receivables		
(net of allowance for doubtful debtors of RR 689 million as at 31 December 2012 and RR 908 million as at 31 December 2011)	1,504	932
Total financial assets	**22,016**	**12,968**
VAT recoverable	14,034	16,597
Advances to suppliers		
(net of allowance for doubtful debtors of RR 2,020 million as at 31 December 2012 and RR 2,033 million as at 31 December 2011)	2,685	2,764
Tax prepayments	73	615
Total accounts receivable and prepayments	**38,808**	**32,944**

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Tax prepayments will be settled against future tax liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. Management believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value of receivables approximates their fair value.

The movement of the provision for doubtful debtors is shown below:

Year ended 31 December 2012	Long-term trade receivables	Short-term trade receivables	Other short-term receivables	Advances to suppliers	Total
As at 1 January	**108**	**6,570**	**908**	**2,033**	**9,619**
Provision accrual	488	1,963	71	3	2,525
Provision reversal	-	(3,643)	(262)	(25)	(3,930)
Debt written-off	-	(32)	(25)	-	(57)
Amortisation of discount	(16)	(9)	(4)	-	(29)
Reclassifications	-	(10)	1	9	-
As at 31 December	**580**	**4,839**	**689**	**2,020**	**8,128**

(in millions of Russian Roubles unless otherwise stated)

Note 14. Accounts receivable and prepayments (continued)

Year ended 31 December 2011	Long-term trade receivables	Short-term trade receivables	Other short-term receivables	Advances to suppliers	Total
As at 1 January	**224**	**2,900**	**695**	**1,874**	**5,693**
Provision accrual	2	4,059	447	67	4,575
Provision reversal	-	(98)	(172)	(22)	(292)
Debt written-off	-	(3)	(13)	-	(16)
Amortisation of discount	(13)	(314)	(14)	-	(341)
Reclassifications	(105)	26	(35)	114	-
As at 31 December	**108**	**6,570**	**908**	**2,033**	**9,619**

As at 31 December 2012 the overdue accounts receivable for which the provision had not been recorded amounted to RR 4,772 million (as at 31 December 2011: RR 3,210 million). The ageing analysis is shown below:

	31 December 2012	31 December 2011
Less than 3 months	3,626	2,576
3 to 6 months	192	378
6 to 12 months	451	64
1 year to 3 years	503	192
Total	**4,772**	**3,210**

The analysis of overdue accounts receivable for which the provision had been recorded is shown below, gross of allowance for doubtful debtors:

	31 December 2012	31 December 2011
Less than 3 months	268	317
3 to 6 months	786	843
6 to 12 months	875	1,624
1 year to 3 years	2,630	3,216
3 to 5 years	840	873
More than 5 years	30	5
Total	**5,429**	**6,878**

Note 15. Inventories

	31 December 2012	31 December 2011
Spare parts	2,326	2,232
Repair materials	1,651	1,462
Other inventories	3,030	2,626
Total inventories	**7,007**	**6,320**

The cost of inventories is shown net of an obsolescence provision for RR 71 million as at 31 December 2012 (as at 31 December 2011: RR 73 million). As at 31 December 2012 and 31 December 2011 the Group had no inventories pledged as security under loan and other agreements.

Note 16. Equity

Share capital

	Number of shares issued and fully paid			
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Ordinary shares	1,260,386,658,740	1,255,948,128,393	630,193	627,974

As at 31 December 2012 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

Additional issue of shares. In March 2012, FGC UES completed and registered the additional share issue. The amount of RR 2,219 million received for shares issued was included as at 31 December 2011 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES. As a result of this issue, the share capital was increased to RR 630,193 million.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Equity (continued)

In November 2012, FGC UES started an additional share issue. The placement process started in December, but was only completed after the year end (Note 32). The amount of RR 3,247 million received for shares issued was included as at 31 December 2012 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES.

Treasury shares. The Group through a subsidiary holds 13,727,165 thousand ordinary shares in treasury at a total cost of RR 4,917 million (as at 31 December 2011: 5,522 million).

In 2012, treasury shares decreased by RR 605 million with the corresponding recognition of expense relating to share-based compensation (see below), since management plans to use treasury shares for the share option plan.

Reserves. Reserves include Revaluation reserve for property, plant and equipment and available-for-sale investments and Foreign currency translation reserve. The Foreign currency translation reserve relates to the exchange differences arising on translation of the net assets of foreign associate.

Reserves comprise the following:

	31 December 2012	31 December 2011
Revaluation reserve (net of tax) for:		
- property, plant and equipment (Note 6)	311,479	312,298
- available-for-sale investments (Note 9)	1,588	1,925
Foreign currency translation reserve	50	100
Total reserves	**313,117**	**314,323**

Reserves for the year ended 31 December 2012 (net of tax):

	Revaluation reserve for:		Foreign	
	property, plant and equipment (Notes 6, 8)	available-for-sale investments (Note 9)	currency translation reserve (Note 8)	Total reserves
As at 1 January 2012	**312,298**	**1,925**	**100**	**314,323**
Change in revaluation reserve for property, plant and equipment	(1,028)	-	-	**(1,028)**
Change in revaluation reserve for property, plant and equipment of associates	209	-	-	**209**
Change in fair value of available-for-sale investments	-	(15,489)	-	**(15,489)**
Accumulated loss on available-for-sale investments recycled to profit or loss	-	15,152	-	**15,152**
Foreign currency translation difference	-	-	(50)	**(50)**
As at 31 December 2012	**311,479**	**1,588**	**50**	**313,117**

The total reduction in fair value of available-for-sale investments recognised in other comprechensive income in 2012 was RR 19,362 million including related deferred tax of RR 3,873 million.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Equity (continued)

Reserves for the year ended 31 December 2011 (net of tax):

	Revaluation reserve for:				
	property, plant and equipment (Note 6)	available-for-sale investments (Note 9)	Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale	Foreign currency translation reserve (Note 8)	Total reserves
As at 1 January 2011	**313,525**	**7,257**	**40,485**	**-**	**361,267**
Change in revaluation reserve for property, plant and equipment	(1,227)	-	-	-	**(1,227)**
Change in fair value of available-for-sale investments	-	(15,151)	(4,810)	-	**(19,961)**
Change in revaluation reserve for property, plant and equipment of associates (previously classified as non-current assets held for sale)	-	-	(10,749)	-	**(10,749)**
Accumulated loss / (gain) on available-for-sale investments recycled to profit or loss	-	9,819	(24,892)	-	**(15,073)**
Amounts relating to available-for-sale investments previously classified as non-current assets held for sale	-	-	(34)	34	-
Foreign currency translation difference	-	-	-	66	**66**
As at 31 December 2011	**312,298**	**1,925**	**-**	**100**	**314,323**

The total reduction in fair value of available-for-sale investments recognised in other comprehensive income in 2011 was:

	Notes	Amount of reduction	Related deferred tax	Amount of reduction net of deferred tax
Decline in fair value of available-for-sale investments classified as non-current assets held for sale	16	6,013	(1,203)	4,810
Decline in fair value of available-for-sale investments within accumulated reserve	9, 18	6,278	(946)	5,332
Decline in fair value of available-for-sale investments below cost	9	12,661	(2,842)	9,819
Total		**24,952**	**(4,991)**	**19,961**

Dividends. The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2012, the net loss of FGC UES, as reported in the published statutory financial statements, was RR 24,502 million (for the year ended 31 December 2011: RR 2,468 million). At the Annual General Meeting in June 2012 the decision was approved not to declare dividends for the year ended 31 December 2011.

Share-based compensation. In February 2011, the Board of Directors approved an Option program (“the Program”) in which the members of the Management Board and other employees of the Company can participate. In March 2011, 13,569,041,046 options to purchase the Company’s ordinary shares were allocated under the Program. In July 2012, additional 549,086,611 options were allocated.

Options granted vest over the period of three years and are exercisable during two years from the vesting date. In case of terminating employment at the initiative of the Company due to breaching certain employment duties by the employee the Program participant will lose his right to purchase the shares.

All options were granted with an exercise price of RR 0.4065 per share. The total grant date fair value of stock options granted allowing updated forfeiture rate was RR 2,859 million, including RR 38 million related to options granted in July 2012.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Equity (continued)

The Black-Scholes option valuation model is used for estimating the fair value of options. The significant inputs into the option valuation model were as follows:

	Awards granted during the year ended	
	31 December 2012	**31 December 2011**
Share price	RR 0.237	RR 0.412
Expected volatility	45%	45%
Risk-free interest rate	7.59%	7.58%
Expected options life	5 years	5 years

Accounts payable to shareholders of FGC UES. Accounts payable to shareholders of FGC UES include dividends payable and payables for shares issued:

	31 December 2012	31 December 2011
Dividends payable	9	55
Accounts payable for shares issued	3,248	2,220
Total accounts payable to shareholders of FGC UES	**3,257**	**2,275**

Note 17. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax charge	(1,629)	(8,588)
Deferred income tax charge	(127)	(5,287)
Total income tax expense	**(1,756)**	**(13,875)**

During the years ended 31 December 2012 and 31 December 2011 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

Profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	**8,799**	**62,863**
Theoretical income tax charge at the statutory tax rate of 20 percent	(1,760)	(12,573)
Tax effect of items which are not assessable / (deductible) for taxation purposes	25	(1,245)
Movement in unrecognised deferred tax assets	(21)	(57)
Total income tax	**(1,756)**	**(13,875)**

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities were measured at 20 percent as at 31 December 2012 and 31 December 2011, the rates expected to be applicable when the asset or liability will reverse.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2012:

		Movements for the year		
	31 December 2012	Recognised in profit or loss	Recognised in other compre-hensive income	1 January 2012
Deferred income tax liabilities				
Property, plant and equipment	79,676	6,570	-	73,106
Investments in associates	74	3	-	71
Available-for-sale investments	6,186	(3,789)	(84)	10,059
Other deferred tax liabilities	60	(3)	-	63
Total deferred income tax liabilities	**85,996**	**2,781**	**(84)**	**83,299**
Deferred income tax assets				
Property, plant and equipment	(1,462)	59	-	(1,521)
Intangible assets	(593)	(74)	-	(519)
Long-term promissory notes	(3,529)	(2,033)	-	(1,496)
Accounts receivable and prepayments	(1,438)	(1,171)	-	(267)
Retirement benefit obligation	(428)	(37)	-	(391)
Current and non-current debt	(156)	14	-	(170)
Accounts payable and accruals	(231)	(52)	-	(179)
Other deferred tax assets	(520)	(356)	-	(164)
Tax losses	(1,439)	975	-	(2,414)
Unrecognised deferred tax assets	4,415	21	-	4,394
Total deferred income tax assets	**(5,381)**	**(2,654)**	**-**	**(2,727)**
Deferred income tax liabilities, net	**80,615**	**127**	**(84)**	**80,572**

The current portion of net deferred tax liabilities as at 31 December 2012 equaled RR 3,321 million and represented the amount of deferred tax liabilities to be settled during the year ended 31 December 2013 (as at 31 December 2011: RR 1,315 million).

Unrecognised deferred tax assets include deferred income tax assets on tax losses carried forward in the amount of RR 4,415 million and deferred income tax assets on temporary differences arising in respect of loss-making subsidiaries. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Tax losses carried forward in respect of which deferred tax assets were not recognised are presented by companies in the table below:

	31 December 2012	31 December 2011
OJSC "Mobile gas-turbine electricity plants"	3,620	2,670
OJSC "Nurenergo"	3,226	8,876
Others	348	524
Total tax losses carried forward	**7,194**	**12,070**

The tax losses expire 10 years after their origination. The Group's tax losses expire mostly with term over 5 years (in 2018-2022) – RR 5,868 million, RR 1,326 million expire with terms from 2 to 5 years (during 2014-2017) and nil expire during the year 2013.

During the year ended 31 December 2012 OJSC "Nurenergo" reassessed the amount of the taxable profit recorded in 2011 and the amount of the tax losses recorded in 2004-2010. As a result of this reassessment, the tax loss of RR 2,462 million recorded in 2011 was reversed and the taxable profit of RR 1,881 million was recognised. Tax losses carried forward in the amount of RR 1,881 million unrecognised in the previous years were utilised against this taxable profit. Tax losses carried forward relating to 2004-2010 were also reassessed and decreased by RR 1,439 mln. As a result of this reassessment, the total amount of unrecognised tax losses carried forward was decreased by RR 5,781 million.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2011:

	31 December 2011	Movements for the year: Recognised in profit or loss	Movements for the year: Recognised in other compre-hensive income	1 January 2011
Deferred income tax liabilities				
Property, plant and equipment	73,106	3,667	-	69,439
Investments in associates	71	1	-	70
Available-for-sale investments	10,059	10,499	(946)	506
Accounts receivable and prepayments	-	(241)	-	241
Non-current assets held for sale	-	(8,139)	(7,426)	15,565
Other deferred tax liabilities	63	31	-	32
Total deferred income tax liabilities	**83,299**	**5,818**	**(8,372)**	**85,853**
Deferred income tax assets				
Property, plant and equipment	(1,521)	29	-	(1,550)
Intangible assets	(519)	(388)	-	(131)
Long-term promissory notes	(1,496)	76	-	(1,572)
Accounts receivable and prepayments	(267)	561	-	(828)
Retirement benefit obligation	(391)	(1)	-	(390)
Current and non-current debt	(170)	(170)	-	-
Accounts payable and accruals	(179)	56	-	(235)
Other deferred tax assets	(164)	30	-	(194)
Tax losses	(2,414)	(781)	-	(1,633)
Unrecognised deferred tax assets	4,394	57	-	4,337
Total deferred income tax assets	**(2,727)**	**(531)**	**-**	**(2,196)**
Deferred income tax liabilities, net	**80,572**	**5,287**	**(8,372)**	**83,657**

(in millions of Russian Roubles unless otherwise stated)

Note 18. Non-current debt

	Currency	Effective interest rate	Due date	Option date	31 December 2012	31 December 2011
Certified interest-bearing non-convertible bearer bonds:						
Series 19	RR	7.95%	06.07.2023	18.07.2018	20,719	20,710
Series 25	RR	8.60%	14.09.2027	04.10.2016	15,318	-
Series 18	RR	8.50%	27.11.2023	17.06.2014	15,073	15,066
Series 22	RR	9.00%	21.07.2027	03.08.2022	10,358	-
Series 10	RR	7.75%	15.09.2020	24.09.2015	10,206	10,202
Series 06	RR	7.15%	15.09.2020	26.09.2013	10,190	10,186
Series 08	RR	7.15%	15.09.2020	26.09.2013	10,190	10,186
Series 21	RR	8.75%	06.10.2027	26.04.2017	10,163	-
Series 15	RR	8.75%	12.10.2023	28.10.2014	10,161	10,156
Series 12	RR	8.10%	19.04.2019	28.04.2016	10,146	-
Series 11	RR	7.99%	16.10.2020	24.10.2017	10,144	10,140
Series 13	RR	8.50%	22.06.2021	-	9,998	9,993
Series 09	RR	7.99%	16.10.2020	24.10.2017	5,072	5,070
Series 07	RR	7.50%	16.10.2020	27.10.2015	5,068	5,066
Stock Exchange authorised certified interest-bearing non-convertible bearer bonds:						
Series BO-01	RR	8.10%	21.10.2015	29.04.2015	10,151	-
Loan participation notes (LPNs):						
Series 01	RR	8.45%	13.03.2019	-	17,578	-
Bank loans:						
OJSC “Gazprombank”	RR	9.50%	13.10.2014	-	15,023	15,000
OJSC “Gazprombank”	RR	9.50%	21.11.2014	-	10,016	10,000
OJSC “Gazprombank”	RR	9.75%	13.06.2017	-	10,016	-
Finance lease:						
Finance lease liabilities	RR	9.50%	23.03.2018	-	778	849
Total non-current debt					**216,368**	**132,624**
Less: current portion of non-current bonds and LPNs					(23,035)	(1,775)
Less: current portion of non-current bank loans					(55)	-
Less: current portion of finance lease liabilities					(78)	(71)
Non-current debt					**193,200**	**130,778**

The bondholders have the option to redeem the bonds for cash instead of accepting the revised terms. Interest is payable every six months during the term of the bonds.

As at 31 December 2012 the estimated fair value of the non-current debt (including the current portion) was RR 213,721 million (as at 31 December 2011: RR 129,200 million), which was estimated using the market prices for quoted FGC UES bonds.

As at 31 December 2012 the Group had long-term undrawn committed financing facilities of RR 122,500 million (as at 31 December 2011: RR 102,500 million) which could be used for the general purposes of the Group.

(in millions of Russian Roubles unless otherwise stated)

Note 18. Non-current debt (continued)

Finance lease. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2012	**150**	**906**	**-**	**1,056**
Less future finance charges	**(72)**	**(206)**	**-**	(278)
Present value of minimum lease payments as at 31 December 2012	**78**	**700**	**-**	**778**
Minimum lease payments as at 31 December 2011	**150**	**749**	**307**	**1,206**
Less future finance charges	(79)	(271)	(7)	(357)
Present value of minimum lease payments as at 31 December 2011	**71**	**478**	**300**	**849**

Leased assets with carrying amount disclosed in Note 6 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

Note 19. Retirement benefit obligations

	Year ended 31 December 2012	Year ended 31 December 2011
Net liability as at 1 January	**4,686**	**4,318**
Net periodical cost	944	879
Benefits paid by the plan	(466)	(511)
Net liability as at 31 December	**5,164**	**4,686**

The Group's post-employment benefits policy includes the employee pension scheme and various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program's core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry.

The Group also pays various long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2012.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2012 and 31 December 2011.

The amounts recognised in the Consolidated Statement of Financial Position are determined as follows:

	31 December 2012	31 December 2011
Total present value of defined benefit obligations	6,849	4,735
Net actuarial (losses) / gains not recognised in the Consolidated Statement of Financial Position	(1,511)	445
Unrecognised past service cost	(174)	(494)
Liability recognised in the Consolidated Statement of Financial Position	**5,164**	**4,686**

(in millions of Russian Roubles unless otherwise stated)

Note 19. Retirement benefit obligations (continued)

The amounts recognised in profit or loss are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Interest cost	380	401
Current service cost	340	308
Net actuarial losses / (gains) recognised in the period	2	(24)
Recognised past service cost	222	194
Net cost recognised in the Consolidated Statement of Comprehensive Income	**944**	**879**

Changes in the present value of the Group's retirement benefit obligation are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Defined benefit obligations as at 1 January	**4,735**	**5,148**
Benefits paid by the plan	(466)	(511)
Current service costs	340	308
Interest cost	380	401
Net actuarial losses / (gains)	1,959	(611)
Past service cost	(99)	-
Present value of defined benefit obligations as at 31 December	**6,849**	**4,735**

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 December 2012	31 December 2011
Discount rate	7.1%	8.1%
Inflation rate	5.1%	5.1%
Future salary increases	5.1%	5.1%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates depends on past service – around 10% for employees with 2 years of service going down to 4% for employees with 10 or more years of service.

Retirement ages assumption is as follows: average retirement ages are 60.5 years for men and 56 years for women.

Mortality table: Russian population mortality table 1998.

The contributions under voluntary pension programs in 2013 are expected in the amount of RR 249 million.

Experience adjustments on benefit obligation are as follows:

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Total present value of defined benefit obligations	6,849	4,735	5,148	4,544	4,262	3,841
Deficit in plan	(6,849)	(4,735)	(5,148)	(4,544)	(4,262)	(3,841)
Experience adjustment on defined benefit obligations	890	123	(197)	323	808	376

(in millions of Russian Roubles unless otherwise stated)

Note 20. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2012	31 December 2011
Third party non-bank loans	7.0-17.0%	50	156
Current portion of non-current borrowings (Note 18)		23,168	1,846
Total current debt and current portion of non-current debt		**23,218**	**2,002**

As at 31 December 2012 the Group had no short-term undrawn committed financing facilities (as at 31 December 2011: RR 15,000 million which could be used for the general purposes of the Group).

Note 21. Accounts payable and accrued charges

	31 December 2012	31 December 2011
Accounts payable to construction companies and suppliers of property, plant and equipment	15,533	16,699
Trade payables	14,653	12,374
Accrued liabilities	115	12
Other creditors	1,141	1,556
Total financial liabilities	**31,442**	**30,641**
Advances received	12,842	11,013
Accounts payable to employees	1,162	1,172
Taxes other than on income payable	910	1,707
Other provisions for liabilities and charges	460	441
Total accounts payable and accrued charges	**46,816**	**44,974**

Note 22. Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Transmission fee	136,559	134,754
Electricity sales	2,251	2,246
Connection services	1,079	2,178
Grids repair and maintenance services	424	393
Total revenue	**140,313**	**139,571**

Other operating income primarily includes income from non-core activities.

	Year ended 31 December 2012	Year ended 31 December 2011
Communication services	863	1,088
Penalties and fines	780	772
Rental income	578	450
Research and development services	392	434
Design works	317	553
Insurance compensation	131	986
Write-off of accounts payable *	51	2,753
Other income	431	757
Total other operating income	**3,543**	**7,793**

* Accounts payable in the amount of RR 2,747 million relating to OJSC “Nurenergo” were written off during the year ended 31 December 2011 as these amounts had been recognised in 2003-2006 years and the relevant limitation period had expired in 2011, according to Russian legislation. There were no claims to OJSC “Nurenergo” concerned with these payables.

(in millions of Russian Roubles unless otherwise stated)

Note 23. Operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Depreciation of property, plant and equipment	43,908	33,187
Employee benefit expenses and payroll taxes	26,311	24,046
Purchased electricity	13,320	13,781
Repairs and maintenance of equipment (by contractors)	3,732	3,666
Materials for repair	2,429	2,326
Business trips and transportation expenses	2,166	2,143
Electricity transit via foreign countries	1,903	1,350
Taxes, other than on income	1,880	1,141
Security services	1,870	1,680
Rent	1,815	1,678
Other materials	1,565	1,843
Subcontract works	1,418	1,267
Consulting, legal and auditing services	1,302	1,223
Loss / (gain) on disposal of property, plant and equipment	1,210	(617)
Information system maintenance	1,066	1,046
Insurance	964	972
Communication service	735	674
Utilities and maintenance of buildings	573	487
Amortisation of intangible assets	571	865
Research and development	544	799
(Reversal) / accrual of allowance for doubtful debtors	(1,405)	4,305
Other expenses	2,753	2,888
Total operating expenses	**110,630**	**100,750**

Employee benefit expenses and payroll taxes include the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	20,083	17,926
Social security contributions to the Pension Fund	3,604	2,995
Social security contributions to other state non-budgetary funds	1,075	904
Pension costs – defined benefit plans (Note 19)	944	879
Share-based compensation (Note 16)	605	1,342
Total employee benefit expenses and payroll taxes	**26,311**	**24,046**

Note 24. Disposal of available-for-sale investments and investments in associates

As at 31 December 2010 all available-for-sale investments, except for shares of OJSC “Russian Grids” (former OJSC “IDGC Holding”) and OJSC “INTER RAO UES”, in the total amount of RR 44,278 million and most of investments in associates, such as OJSC “WGC-1”, OJSC “TGC-6”, OJSC “TGC-11”, OJSC “Volzhskaya TGC” and JSC UES “GruzRosEnergo”, in the total amount of RR 53,227 million, were reclassified as held for sale under IFRS 5 “Non-current assets held for sale and discontinued operations” as the management of the Company had committed to a plan to transfer these assets during 2011 year to INTER RAO in exchange for ordinary shares of INTER RAO. In March and May 2011 all the above-mentioned investments, except for JSC UES “GruzRosEnergo”, were transferred to INTER RAO in exchange for 1,883,043,160,666 its ordinary shares.

In accordance with the provisions of IFRS 5, non-current assets held for sale were re-measured at the date of de-recognition (transfer) to reflect the change in the value less costs to sell. A loss of RR 4,718 million and corresponded deferred tax of RR 944 million was recognised in profit or loss in respect of re-measurement of investments in associates classified as held for sale. Decline in fair value of available-for-sale investments classified as held for sale was recognised in other comprehensive income in the amount of RR 4,810 million net of corresponding deferred tax in the amount of RR 1,203 million.

(in millions of Russian Roubles unless otherwise stated)

Note 24. Disposal of available-for-sale investments and investments in associates (continued)

At the dates of the transaction, cumulative income recognised in other comprehensive income and related to the disposed assets held for sale amounting to RR 31,115 million was transferred to profit or loss as a gain on disposal of available-for-sale investments. A related deferred tax change in the amount of RR 6,223 million was recognised in the income tax expense for the year.

Note 25. Finance income

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	3,987	3,834
Foreign currency exchange differences	90	61
Dividends	20	45
Other finance income	16	17
Total finance income	**4,113**	**3,957**

Note 26. Finance costs

	Year ended 31 December 2012	Year ended 31 December 2011
Interest expense	13,051	5,895
Foreign currency exchange differences	55	72
Other finance costs	77	144
Total finance cost	**13,183**	**6,111**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(12,969)	(5,833)
Total finance cost recognised in profit or loss	**214**	**278**

Note 27. Earnings per ordinary share for profit attributable to shareholders of FGC UES

	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of ordinary shares (millions of shares)	1,246,807	1,242,513
Profit attributable to shareholders of FGC UES (millions of RR)	7,103	49,139
Weighted average earning per share – basic and diluted (in RR)	**0.006**	**0.040**

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Note 28. Contingencies, commitments and operating risks

Political environment. The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by the political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

Insurance. The Group held limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

Legal proceedings. In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group.

As at 31 December 2012 the Group's subsidiary, OJSC ”Nurenergo” was engaged in a number of litigations involving claims amounting in total to RR 7,433 million (as at 31 December 2011: RR 4,947 million), for collection of amounts payable for electricity purchased by OJSC ”Nurenergo”. The amount is recorded within accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

Note 28. Contingencies, commitments and operating risks (continued)

In September 2012, the Commercial Court of the Republic of Chechnya commenced the observation procedure in respect of OJSC “Nurenergo”. In accordance with Russian legislation on bankruptcy, all the above-mentioned litigations were suspended. In March 2013, the Federal Commercial Court of the North Caucasus District granted a cassational appeal filed by OJSC “Nurenergo”, annuled the original court decision, and remitted the case for a new trial.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of decision to perform tax review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in these Consolidated Financial Statements.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 222,912 million as at 31 December 2012 (as at 31 December 2011: RR 351,189 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 15,533 million as at 31 December 2012 (as at 31 December 2011: RR 16,699 million) (Note 21).

Note 29. Financial instruments and financial risks

Financial risk factors. The Group’s ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another. The Group’s financial management policy aims to minimise or eliminate possible negative consequences of the risks for the financial results of the Group. The Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

(in millions of Russian Roubles unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

Financial instruments by categories:

31 December 2012	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Available-for-sale investments (Note 9)	-	50,617	-	50,617
Long-term promissory notes (Note 10)	1,457	-	-	1,457
Other non-current assets (Note 11)	3,382	-	-	3,382
Cash and cash equivalents (Note 12)	24,056	-	-	24,056
Bank deposits (Note 13)	980	-	-	980
Short-term promissory notes (Note 10)	23,380	-	-	23,380
Loans given	38	-	-	38
Accounts receivable (Note 14)	22,016	-	-	22,016
Total financial assets	**75,309**	**50,617**	**-**	**125,926**
Financial liabilities				
Non-current debt (Note 18)	-	-	193,200	193,200
Accounts payable to the shareholders of FGC UES (Note 16)	-	-	3,257	3,257
Current debt and current portion of non-current debt (Note 20)	-	-	23,218	23,218
Accounts payable and accrued charges (Note 21)	-	-	31,442	31,442
Total financial liabilities	**-**	**-**	**251,117**	**251,117**

31 December 2011	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Available-for-sale investments (Note 9)	-	69,979	-	69,979
Long-term promissory notes (Note 10)	14,928	-	-	14,928
Other non-current assets (Note 11)	116	-	-	116
Cash and cash equivalents (Note 12)	25,627	-	-	25,627
Bank deposits (Note 13)	1,184	-	-	1,184
Short-term promissory notes (Note 10)	20,737	-	-	20,737
Loans given	448	-	-	448
Accounts receivable (Note 14)	12,968	-	-	12,968
Total financial assets	**76,008**	**69,979**	**-**	**145,987**
Financial liabilities				
Non-current debt (Note 18)	-	-	130,778	130,778
Accounts payable to the shareholders of FGC UES (Note 16)	-	-	2,275	2,275
Current debt and current portion of non-current debt (Note 20)	-	-	2,002	2,002
Accounts payable and accrued charges (Note 21)	-	-	30,641	30,641
Total financial liabilities	**-**	**-**	**165,696**	**165,696**

(a) Market risk.

(i) Foreign exchange risk. The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk. The Group's operating profits and cash flows from operating activity are not largely dependent on the changes in market interest rates. As at 31 December 2012 the interest rates on the borrowing are fixed.

(in millions of Russian Roubles unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

(iii) Price risk. Equity price risk arises from available-for-sale investments. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group’s investment strategy is to maximise investment returns in order to meet partially the Group’s investment program needs. Transactions in equity products are monitored and authorised by the Group’s corporate finance department. The total amount of investments available-for-sale exposed to the market risk equals RR 50,617 million. As at 31 December 2012, if equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group’s comprehensive income and revaluation reserve in equity would increase (decrease) by RR 248 million before tax, and profit before tax would increase (decrease) by RR 4,814 million. As at 31 December 2011, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group’s comprehensive income and revaluation reserve in equity would increase (decrease) by RR 290 million before tax, and profit before tax would increase (decrease) by RR 6,708 million.

(b) Credit risk.

The amounts exposed to credit risk are as follows:

31 December 2012	Long-term promissory notes (Note 10)	Other non-current assets (Note 11)	Cash and cash equivalents (Note 12)	Bank deposits (Note 13)	Short-term promissory notes (Note 10)	Loans given	Accounts receivable (Note 14)
Not overdue, not impaired	1,457	3,382	24,056	980	22,938	17	17,244
Not overdue, but impaired:	-	-	-	-	-	-	-
- gross amount	12,022	*580*	-	-	-	-	*99*
- less impairment provision	(12,022)	*(580)*	-	-	-	-	*(99)*
Overdue, but not impaired	-	-	-	-	442	21	4,772
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	-	-	-	-	-	*5,429*
- less impairment provision	-	-	-	-	-	-	*(5,429)*
Total amount	**1,457**	**3,382**	**24,056**	**980**	**23,380**	**38**	**22,016**

31 December 2011	Long-term promissory notes (Note 10)	Other non-current assets (Note 11)	Cash and cash equivalents (Note 12)	Bank deposits (Note 13)	Short-term promissory notes (Note 10)	Loans given	Accounts receivable (Note 14)
Not overdue, not impaired	5,731	100	25,627	1,184	20,737	5	9,758
Not overdue, but impaired:	9,197	-	-	-	-	-	-
- gross amount	*12,022*	*90*	-	-	-	-	*600*
- less impairment provision	*(2,825)*	*(90)*	-	-	-	-	*(600)*
Overdue, but not impaired	-	16	-	-	-	443	3,210
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	*18*	-	-	-	*15*	*6,878*
- less impairment provision	-	*(18)*	-	-	-	*(15)*	*(6,878)*
Total amount	**14,928**	**116**	**25,627**	**1,184**	**20,737**	**448**	**12,968**

As at 31 December 2012 the amount of financial assets, which were exposed to credit risk, was RR 75,309 million (as at 31 December 2011: RR 76,008 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group’s trade debtors are quite homogenous as regards their credit quality and concentration of credit risk. They are primarily comprised of large, reputable customers, most of which are controlled by, or related to the Government of the RF. Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low.

(in millions of Russian Roubles unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

Credit risk is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Promissory notes are generally from Russian banks with minimum credit rating not below BB- by Standard & Poor's or Ba3 by Moody's. Although some of the banks and companies have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

(c) Liquidity risk. Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
As at 31 December 2012					
Non-current and current debt and interest payable (Notes 18, 20)	40,649	65,210	111,748	67,233	284,840
Accounts payable to the shareholders of FGC UES (Note 16)	3,257	-	-	-	3,257
Accounts payable and accrued charges (Note 21)	31,442	-	-	-	31,442
Total as at 31 December 2012	**75,348**	**65,210**	**111,748**	**67,233**	**319,539**
As at 31 December 2011					
Non-current and current debt and interest payable (Notes 18, 20)	32,735	60,431	46,331	37,245	176,742
Accounts payable to the shareholders of FGC UES (Note 16)	2,275	-	-	-	2,275
Accounts payable and accrued charges (Note 21)	30,641	-	-	-	30,641
Total as at 31 December 2011	**65,651**	**60,431**	**46,331**	**37,245**	**209,658**

(d) Fair value. Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The carrying value of trade receivables less provision for doubtful debtors is assumed to approximate their fair value due to the short-term nature of the receivables. The fair value of financial liabilities for disclosure in the consolidated financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for Group for similar financial instruments.

The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 9). The fair value of the available-for-sale investments is determined by the quoted prices in active markets for identical financial assets.

Note 30. Capital risk management

The Group's management of the capital of its entities aims to comply with the capital requirements established by the legislation of the Russian Federation for joint stock companies, in particular:

- share capital cannot be lower than RR 100 thousand;
- in case the share capital of an entity is greater than statutory net assets of the entity, such entity must reduce its share capital to the value not exceeding its statutory net assets;
- in case the minimum allowed share capital exceeds the entity's statutory net assets, such entity is subject for liquidation.

As at 31 December 2012 several companies of the Group namely OJSC "Nurenergo", OJSC "Mobile gas-turbine electricity plants", OJSC "The Kuban trunk grids", OJSC "Engineering and construction management centre of Unified Energy System" and OJSC "The principle electricity transmission service company of Unified National Electrical Grid" were not in compliance with all requirements mentioned above. Management of the Group is currently implementing measures to ensure compliance with all legislation requirements within a short period. Management considers that a breach of above mentioned requirements will not have material effect on the Group's consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

Note 30. Capital risk management (continued)

The Group's capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the dividends paid to the shareholders or their contributions to the authorised capital by issuing new shares or by selling assets to reduce debts.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the RAR. The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. As at 31 December 2012 the Company's gearing ratio calculated under RAR was 0.25 (as at 31 December 2011: 0.15).

Note 31. Segment information

The Group operates wihin one operating segment. The Group's single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment. This segment comprises JSC "FGC UES", LLC "Index energetiki – FGC UES", OJSC "The Kuban trunk grids", OJSC "The Tomsk trunk grids", and maintenance (service) subsidiaries – OJSC "The principle electricity transmission service company of the UNEG" and OJSC "Specialised electricity transmission service company of the UNEG" which are engaged in maintenance services (repair and restoration) for the UNEG.

The Board of Directors of the Company has been determined as chief operating decision maker (the "CODM") of the Group which generally analyses information relating to Transmission segment. The Board of Directors does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). It is calculated based on the statutory financial statements prepared according to RAR as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Year ended 31 December 2012	**Year ended 31 December 2011**
Revenue from external customers	139,257	137,450
Intercompany revenue	355	337
Total revenue	**139,612**	**137,787**
Depreciation and amortisation *	60,111	40,092
Interest income	4,409	4,253
Interest expenses	59	69
Current income tax	1,529	8,413
Loss for the year	(31,601)	(15,597)
Capital expenditure	164,394	166,582

	31 December 2012	**31 December 2011**
Total reportable segment assets	1,151,565	1,072,677
Total reportable segment liabilities	323,824	233,819

* Depreciation charge under RAR is based on useful lives determined by statutory regulations.

	Year ended 31 December 2012	**Year ended 31 December 2011**
Total revenue from segment (RAR)	**139,612**	**137,787**
Reclassification between revenue and other income	(1,427)	(367)
Non-segmental revenue	2,483	2,488
Elimination of intercompany revenue	(355)	(337)
Total revenue (IFRS)	**140,313**	**139,571**

(in millions of Russian Roubles unless otherwise stated)

Note 31. Segment information (continued)

	Year ended 31 December 2012	Year ended 31 December 2011
Loss for the year (RAR)	**(31,601)**	**(15,597)**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	18,372	8,129
Reversal of impairment / (impairment) of property, plant and equipment	512	(808)
Financial instruments		
Reversal of re-measurement of available-for-sale investments and investments in associates	22,870	36,645
Adjustment to the gain on disposal of available-for-sale investments and investments in associates	-	28,927
Impairment of available-for-sale investments	(18,941)	(12,661)
Reversal of impairment of investments in associates	313	-
Loss on re-measurement of assets held for sale	-	(4,718)
Discounting of promissory notes	(493)	(764)
Reversal of impairment of promissory notes	3,460	-
Consolidation		
Reversal of impairment of investments in subsidiaries	916	1,518
Reversal of impairment of intercompany promissory notes	6,904	13,037
Reversal of re-measurement of treasury shares	1,073	1,200
Other		
Write-off of research and development to expenses	(351)	(656)
Share of result of associates	21	8
Adjustment to allowance for doubtful debtors	(298)	(4,316)
Share-based compensation	(605)	(1,342)
Accrual of retirement benefit obligations	(130)	(236)
Deferred tax adjustment	8,231	614
Other adjustments	500	306
Non-segmental other operating loss	(3,710)	(298)
Profit for the year (IFRS)	**7,043**	**48,988**

	31 December 2012	31 December 2011
Total reportable segment liabilities (RAR)	**323,824**	**233,819**
Netting of VAT recoverable and payable	(3,976)	(6,701)
Netting of advances and payables	(46)	(1,043)
Recognition of finance lease liabilities	778	849
Accrual of retirement benefit obligations	4,919	4,495
Deferred tax liabilities adjustment	63,229	71,515
Accrual of payables recognised in another accounting period	126	769
Other adjustments	65	136
Non-segmental liabilities	18,559	17,659
Elimination of intercompany balances	(55,033)	(55,928)
Total liabilities (IFRS)	**352,445**	**265,570**

(in millions of Russian Roubles unless otherwise stated)

Note 31. Segment information (continued)

	31 December 2012	31 December 2011
Total reportable segment assets (RAR)	**1,151,565**	**1,072,677**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	147,674	147,661
Reversal of impairment of property, plant and equipment	549	37
Recognition of property, plant and equipment under finance lease	790	861
Financial instruments		
Adjustment to cost of investments in associates	431	(62)
Adjustment to cost of available-for-sale investments	5,658	(3,881)
Discounting of promissory notes	(900)	(3,867)
Consolidation		
Reversal of impairment of investments in subsidiaries	8,014	7,098
Reversal of impairment of intercompany promissory notes	23,607	16,703
Reversal of re-measurement of treasury shares	(2,765)	(3,838)
Unrealised profit adjustment	(3,448)	(2,020)
Elimination of investments in subsidiaries	(23,462)	(23,462)
Elimination of intercompany balances	(55,033)	(55,928)
Other		
Write-off of research and development to expenses	(2,611)	(2,260)
Adjustment to allowance for doubtful debtors	2,511	2,809
Deferred tax assets adjustment	(6,151)	(3,895)
Netting of VAT recoverable and payable	(3,976)	(6,701)
Netting of advances and payables	(46)	(1,043)
Other adjustments	800	1,163
Non-segmental assets	17,034	21,625
Total assets (IFRS)	**1,260,241**	**1,163,677**

The main differences between financial information prepared in accordance with IFRS and the financial information reported to the chief operating decision-maker related to profit or loss, and assets and liabilities results from the differences in the accounting methods under IFRS and RAR. Financial information on segments reported to the CODM under RAR does not reflect the adjustments made in accordance with IFRS.

Non-segmental revenue, non-segmental other operating loss, non-segmental assets and non-segmental liabilities represent corresponding revenue, loss (profit), assets and liabilities of components (subsidiaries) that are not determined as segments by the CODM.

Information on revenue for separate services and products of the Group is presented in Note 22.The Group performs most of its activities in the Russian Federation and does not have any significant revenue from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are government-related entities. The amounts of revenue from such entities are disclosed in Note 5. The Group has no other major customers with turnover over 10 percent of the Group revenue.

Note 32. Events after the reporting period

Additional share issue. In March 2013, the Company completed and registered an additional share issue. As the result of this share issue 6,754,357,256 ordinary shares with a nominal value of RR 0.5 per share were placed for a consideration of RR 3,250 million in cash and other assets at the cost of RR 127 million. As a result of the exercise of the state's pre-emptive rights during the share issue, the interest of the state in the Company increased from 79.55 to 79.64 per cent. Cash proceeds from the share issue will be used for financing of the investment program of the Company.

Bonds issue. In January 2013, the Group issued certified interest-bearing non-convertible bearer bonds of Series 24 with a total nominal value of RR 10,000 million, an interest rate fixed for the first 14 coupons at 8.0 percent, maturity in January 2028, and embedded put option in January 2020. The interest is payable every six months during the terms of the bonds.

Repayment of debt. In January and March 2013, the Group made a full early repayment of two loans issued by OJSC "Gazprombank" in the amount of RR 10,000 million each.

Federal Grid Company of Unified Energy System

London Stock Exchange

Joint Stock Company
"Federal Grid Company of Unified Energy System"

ANNUAL FINANCIAL REPORT FOR 2012
In accordance with UK Disclosure and Transparency Rules

April 2013
Moscow

Key 2012 Results

Key production indicators

	2010	2011	2012
Number of substations*	805	854	891
Total transmission grid length, thousand km **	121.7	124.6	131.6
Electricity transmitted from the the UNEG to distribution grid companies, direct private consumers on the wholesale energy market, and independent power industry JSCs (million kWh)	470,648.072	484,663.552	498,287.684
Electricity transmitted from the the UNEG to neighboring countries (million kW)	15,716.33	19,284.808	15,768.826
Declared capacity (MW)	91,179	90,937	90,492
Total actual electricity losses (million kWh)	22,526	22,553	21,946

* Taking into account rented sites as well as switchgears and units at substations of other owners.

**Taking into account rented high voltage transmission lines.

Key financial indicators (RUR million)

	2010*	2011	2012
Revenues	113,330	139,571	140,413
Adjusted EBITDA**	67,717	83,760	82,096
Adjusted operating profit **	29,941	46,614	33,520
Adjusted profit for the period **	27,910	38,241	29,956
Net debt **	(3,838)	85,232	168,002
Capitalisation	452,717	351,163	253,905

* Based on comparative information presented in the 2011 audited consolidated financial statements of the Company

** Calculations are presented in the «Financial results» section of this Report

About the Company

Federal Grid Company was founded in 2002 during the reform of the Russian power industry. The main directions of the Company's activities are the transmission of electric energy through main electric grids and technological connection. Our Company is included in the list of strategically important companies and has a status of natural monopoly.

During its 10 year history, the Company has become the largest power industry company in Russia in terms of market capitalization and is one of Russia's leading "blue chips" on the Russian stock market.

The Company employs more than 25,000 individuals, which ensures the sustainable operation of more than 131 thousand kilometers of electric energy transmission lines and 891 substations.

As of 31 December 2012, the Company has 51 regional branches, including:

— 8 branches – Main Power Transmission Lines (MES);

— 41 branches – Main Power Transmission Line Companies (PMES);

— 1 branch – Special Production Plant Bely Rast;

— 1 branch – Center of Technical Supervision.

Detailed information about the Company's structure and history can be found at the official website in the section About Us / About company.

Corporate Governance

Federal Grid Company observes all corporate governance principles focused on long-term goals, ensuring the transparency of its activities, environmental protection, labor safety and the social protection of its employees.

The Company's supreme management body is the General Meeting of Shareholders. The Board of Directors determines the strategy of the Company's development and also supervises the activities of the Management Board. The Management Board is entrusted with operational management of the Company.

Committees are formed under the Board of Directors, the activities of which are aimed at upgrading the effectiveness and quality of work of the Board of Directors.

Current activities of Federal Grid Company are managed by the Management Board, which is headed by the Chairman. The Management Board is accountable to the General Meeting of Shareholders and to the Board of Directors.

The Chairman of the Management Board is the sole executive management body.

The Company has an effective control system. The external control system, introduced to protect the interests of shareholders, is represented by an independent auditor and the Audit Commission.

The internal control system includes both audit and control divisions.

We have developed and implemented numerous normative documents that regulate corporate governance principles and procedures. Particularly, in 2012, our Company adopted a new Corporate Governance Code, which reflects provisions that significantly improve the Company's corporate governance quality.

Detailed information on the Company's corporate governance is available at the official website in the section About Us / Corporate Governance.

Share Capital

As of 31 December 2012, the share capital of Federal Grid Company amounted to 630,193,329,370 rubles divided into 1,260,386,658,740 ordinary shares with a nominal value of 50 kopecks each.

As of 31 December 2012, the number of authorised shares amounted to 1,346,805,823,831 ordinary shares with a nominal value of 50 kopecks each and a total nominal value of 673,402,911,915.5 rubles. Authorised ordinary shares have the same rights as outstanding ordinary shares.

No preferred shares have been issued.

In November 2012, the Company's Board of Directors adopted a resolution to increase the Company's share capital by a placement of additional ordinary shares with the total value of 4,082,034,991.5 rubles via open subscription. On 11 March 2013, an additional ordinary share issue was completed with a price of 50 kopecks per share. During the additional share issue, 6,754,357,256 shares (82.7% of the total number of securities from the additional issue subject to placement) were placed. As a result of the placement, the Company received 3,250 million rubles in cash and other assets at the cost of 127 million rubles. The main participant in the additional share issue was the Russian Federation, which invested in the Company's share capital in the amount of 3,247 million rubles.

As of 31 December 2012, 79.55% of the Company's shares were owned by the Government of the Russian Federation, represented by the Federal Agency for State Property Management;

18.31% of shares were owned by legal entities; and 2.14% were owned by individuals.

Market quotations for the Company's shares

In 2012, shares of the power industry sector performed significantly worse than the market as a whole, with the industry indicator MicexPWR decreasing by 16.8% during the reporting period. The negative dynamics with the indicator outpacing the market as a whole is related to continuing regulatory pressure and the uncertainty of development prospects for the power industry sector. The Company's shares were subject to fluctuation during the year due to continuing regulatory uncertainty and concluded the year with a significant decline in quoted prices – 28.5% for the year.

The price of Federal Grid Company's shares on the stock exchange as of 28 December 2012 amounted to 0.20104 rubles, which is 19% lower than the consensus analyst forecast, which indicates the growth potential for the Company's shares.

Detailed information on the Company's shares is available at the official website in the section Investors / Share Information.

Depository receipts program

On 30 June 2008, Federal Grid Company launched a Depository Receipts Program (GDR), not subject to listing procedures (Regulation S and Rule 144A). In 2011, the Company performed a technical listing of depository receipts on the primary exchange of the London Stock Exchange, where trading of Federal Grid Company's GDRs was launched on 28 March 2011.

As of 31 December 2012, the volume of the depository receipts program amounted to 1.4 million receipts, or 0.058% of the Company's charter capital. The maximum number of GDR's which the Company can issue stands at 2,511,896,256.

Detailed information on trading of the Company's depository receipts is available at the official website in the section Investors / Share Information / GDR Program.

Current information on the GDR program can also be accessed at the official website of the London Stock Exchange at www.londonstockexchange.com, under Federal Grid Company ticker symbol – FEES.

Dividend policy

In accordance with Russian legislation and the Charter of Federal Grid Company, the source for dividend payments is the Company's net profit, which is determined on the basis of the Company's annual statutory accounts.

According to 2012 published statutory financial statements of Federal Grid Company, the Company's net loss for the reporting year amounted to 24,502 million rubles. The main factors behind this loss were negative results from the revaluation of financial investments into stock with market quotations, accrual of allowance for doubtful debtors and impairment of promissory notes.

A resolution on the payment of dividends for 2012 will be adopted by the Company's Annual General Meeting of Shareholders in 2013. The shareholders have proposed to adopt a resolution not to pay dividends on the Company's ordinary shares for 2012.

Detailed information on dividends paid by the Company is available at the official website in the section Investors / Dividends.

Operating Activities

Electric energy transmission services

The principal activity of Federal Grid Company is the transmission of electricity via the Russian Unified National Electric Grid (the "UNEG"). Payments for this type of services are the main financing source for the revenue side of the Company's budget.

According to Russian legislation, electric energy transmission services through the the UNEG are monopoly-type activities and are regulated by the Russian Government. The price for electric energy transmission services is determined via respective tariffs set by the Russian Federal Tariff Service, taking into account normative technological losses of energy during the UNEG transmission for the respective subject of the Russian Federation, as adopted by the Russian Ministry of Energy.

Since 2010, within the framework of measures to upgrade investor attractiveness for the power industry, tariffs for Federal Grid Company on services related to the transmission of electric energy via the the UNEG are set based on the method of return on invested capital (RAB regulation). The change in method ensured a significant increase in the tariff growth rate.

Over four years, the volume of electric energy transmission services provided by the Company increased more than 100%, reaching 136,558,888 thousand rubles in 2012, according to the Company's IFRS consolidated financial statements.

The number of our customers constantly increases. In 2012, the number of consumers for electric energy transmission services provided by the Company amounted to 207 organisations (having connections to the the UNEG).

Detailed information on electric energy transmission services, provided by the Company, is available at the official website in the section Operations / Energy transmission.

Technological connection services

Technological connections are a complex service that provides for the actual connection of energy receiving devices (power units) to electric grid system objects. We provide technological connection services to new consumers as well as to existing customers, who need to increase power consumption.

The main consumers of technological connection services include:

— Large businesses (the oil and metallurgical industry, the production of construction materials, etc.);

— Construction and reconstruction of complex immovable property objects;

— Distribution grid companies.

— In 2012, the Company concluded 376 agreements on the provision of technological connection services; the overall volume of maximum capacity under the agreements amounted to 2,78 GW.

Detailed information on technological connection services provided by the Company is available at the official website in the section Operations / Technological connection.

Development Outlook for the Company

Investments

On 31 October 2012, the Russian Ministry of Energy adopted the Company's 2013-2017 investment program. The overall volume of investment program financing for 2013-2017 will amount to more than 775.5 billion rubles.

Tasks of Federal Grid Company's investment program:

— Renewal of the Company's grid assets;

— Implementation of projects in the field of electric grid construction that have State importance (APEC, ESPO, Olympics-2014 in Sochi, the Skolkovo Innovation Center, increased energy supply reliability to Moscow, St. Petersburg, etc.);

— Fulfillment of agreements concluded with regional administrations for electricity supply to consumers;

— Capacity output for commissioned power units at NPPs, HPPs and TPPs;

— Implementation of innovative projects and energy efficiency programs;

— Creation of technological infrastructure for the functioning of the competitive electricity and capacity market.

Investment in the UNEG development has significant State importance; hence, part of the program is financed from federal budgetary funds. Other program financing sources include: Company's own funds, funds received from the additional share issue, funds received from payments for technological connection, bond issues and loans.

Within the framework of implementing the Company's 2013-2017 investment program, the Company plans to put into operation 66,869.86 MVA of transformer capacity and 16,984.65 km of electricity transmission lines.

The Company's 2012 investment plans were practically fulfilled. Specifically, plans on the introduction of high voltage lines were fulfilled at 91% (3,643 km against 4,023 planned km), whereas, the plans on the introduction of substations were over-fulfilled by 26% (17,852 MVA against 14,152 planned MVA). The volume of the application of funds steadily exceeds financing volume. At the same time, a significant (33%) over-fulfillment of the indicator for the placement of objects into operation for the first time in Company history allowed for a decrease in the volume of construction-in-progress compared with the previous year and confirmed the effectiveness of regulation based on long-term parameters.

Detailed information about the Company's investment program is available at the official website in the section Operations / Investments.

Innovation

During the reporting period our Company adopted and approved the Program of Innovative Development until 2020. The main objective of the Program is to increase the reliability, efficiency and safety of the main electric grid complex and the power industry as a whole via innovative technologies and solutions.

Our program provides for the achievement of key effectiveness indicators for the Company's innovative development till 2020. In 2012, for the Company, most of the key effectiveness indicators for innovative development reached targeted values and in some cases, even exceeded them.

In 2012, the volume of financing for research and development reached 2.9 billion rubles.

Financial Results

This chapter contains selected financial information which has been derived from the Group's audited consolidated financial statement as at and for the year ended 31 December 2012, prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the European Union. The selected financial and operating data below should be read in conjunction with the Group's consolidated financial statement prepared in accordance with IFRS.

Summary of results

For the years ended 31 December 2012 and 2011, our revenue amounted to RUR140,313 million and RUR139,571 million, respectively.

For the years ended 31 December 2012 and 2011, our profit for the period amounted to RUR7,043 million and RUR48,988 million, respectively.

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Revenues	**140,313**	**139,571**
Other operating income	3,543	7,793
Operating expenses	(110,630)	(100,750)
Gain on disposal of available-for-sale investments	-	31,115
Loss on re-measurement of assets held for sale	-	(4,718)
Reversal of impairment / (impairment) of property, plant and equipment, net	53	(1,174)
Operating profit	**33,279**	**71,837**
Finance income	4,113	3,957
Finance costs	(214)	(278)
Impairment of available-for-sale investments	(18,941)	(12,661)
Impairment of promissory notes, net	(9,772)	-
Reversal of impairment of investments in associates	313	-
Share of result of associates	21	8
Profit before income tax	**8,799**	**62,863**
Income tax	(1,756)	(13,875)
Profit for the year	**7,043**	**48,988**

Consolidated Statement of Financial Position (IFRS)

(in millions of rubles)	31 December 2012	31 December 2011
ASSETS		
Non-current assets		
Property, plant and equipment	1,096,535	980,677
Intangible assets	9,319	6,973
Investments in associates	1,403	910
Available-for-sale investments	50,617	69,979
Long-term promissory notes	1,457	14,928
Other non-current assets	4,498	1,039
Total non-current assets	**1,163 829**	**1,074,506**
Current assets		
Cash and cash equivalents	24,056	25,627
Bank deposits	980	1,184
Short-term promissory notes	23,380	20,737
Loans given	38	448
Accounts receivable and prepayments	38,808	32,944
Income tax prepayments	2,143	1,911
Inventories	7,007	6,320
Total current assets	**96,412**	**89,171**
TOTAL ASSETS	**1,260,241**	**1,163,677**
EQUITY AND LIABILITIES		
Equity		
Share capital: Ordinary shares	630,193	627,974
Treasury shares	(4,917)	(5,522)
Share premium	10,501	10,501
Reserves	313,117	314,323
Accumulated deficit	(41,831)	(49,962)
Equity attributable to shareholders of FGC UES	**907,063**	**897,314**
Non-controlling interest	733	793
Total equity	**907,796**	**898,107**

(in millions of rubles)	31 December 2012	31 December 2011
Non-current liabilities		
Deferred income tax liabilities	80,615	80,572
Non-current debt	193,200	130,778
Retirement benefit obligations	5,164	4,686
Total non-current liabilities	**278,979**	**216,036**
Current liabilities		
Accounts payable to shareholders of FGC UES	3,257	2,275
Current debt and current portion of non-current debt	23,218	2,002
Accounts payable and accrued charges	46,816	44,974
Income tax payable	175	283
Total current liabilities	**73,466**	**49,534**
Total liabilities	**352,445**	**265,570**
TOTAL EQUITY AND LIABILITIES	**1,260,241**	**1,163, 677**

Summary of the Consolidated Statement of Cash Flows (IFRS)

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Net cash generated by operating activities	70,306	68,645
Net cash used in investing activities	(145,711)	(124,743)
Net cash generated by financing activities	73,834	68,152
Net (decrease) / increase in cash and cash equivalents	**(1,571)**	**12,054**

Non-IFRS Financial Information

(in millions of rubles, except for margins and ratios in %)	Year ended 31 December 2012	Year ended 31 December 2011
EEBITDA	49,379	93,236
EBITDA margin (1)	35.2%	66.8%
Adjusted EBITDA	82,133	83,760
Adjusted EBITDA margin (1)	58.5%	60.0%
Adjusted operating profit (2)	33,520	46,614
Adjusted operating profit margin (1)	23.9%	33.4%
Adjusted profit for the period (3)	29,956	38,241
Return on assets (4)	2.5%	3.4%
Return on equity (5)	3.3%	4.3%

(1) Margins are calculated as EBITDA, adjusted EBITDA and adjusted operating profit divided by the total revenue for the period;

(2) Adjusted operating profit is calculated as operating profit adjusted for gain on disposal of available-for-sale investments (only in 2011)), loss on re-measurement of assets held for sale (only in 2011), and non-specific impairment of property, plant and equipment;

(3) Adjusted profit for the period is calculated as profit for the period adjusted for gain on disposal of available-for-sale investments (only in 2011), loss on re-measurement of assets held for sale (only in 2011), non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes (only in 2012), and reversal of impairment of investments in associates (only in 2012) (including respective deferred income tax);

(4) Return on assets is calculated as adjusted profit for the period divided by the average total assets for the period;

(5) Return on equity is calculated as adjusted profit for the period divided by the average total equity for the respective period. For the purpose of this ratio, amounts received from shareholders of Federal Grid Company for the additional share issues prior to the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company) are treated as an element of equity.

The indicators presented above are not financial performance measures that are required by, or presented in accordance with IFRS. Accordingly, they should not be considered as alternatives to profit for the period as a measure of operating performance or to cash flows from operating activities as a liquidity measure. Our calculation of these ratios may be different from calculations used by other companies and therefore comparability may be limited. We believe that EBITDA and Adjusted EBITDA provide useful information to investors, because they are indicators of the strength and performance of our ongoing business operations and indicators of our ability to fund discretionary spending, such as: capital expenditures, the acquisition of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocations of costs associated with long-lived assets that have been acquired or constructed in prior periods.

Adjusted profit for the period

Adjusted profit for the period is used to calculate the return on assets and the return on equity indicators. The following table sets forth a reconciliation of adjusted profit for the period to profit for the periods indicated:

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the period	**7,043**	**48,988**
Adjustments to profit for the period:		
Gain on disposal of available-for-sale investments	-	(31,115)
Loss on re-measurement of assets held for sale	-	4,718
Non-specific impairment of property, plant and equipment	241	303
Impairment of available-for-sale investments	18,941	12,661
Impairment of promissory notes	9,772	-
Reversal of impairment on investments in associates	(313)	-
Deferred income tax on adjustments (1)	(5,728)	2,687
Adjusted profit for the period (1)	**29,956**	**38,241**

(1) Unaudited.

EBITDA and adjusted EBITDA

EBITDA represents profit for the period before income tax, finance income and costs, depreciation and amortisation. Adjusted EBITDA represents EBITDA adjusted to exclude gain on disposal of available-for-sale investments (only in 2011), loss on re-measurement of assets held for sale (only in 2011), non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes (only in 2012), reversal of impairment of investments in associates (only in 2012), and to include finance income.

The following table sets forth a reconciliation of profit for the period to EBITDA and adjusted EBITDA for the periods indicated:

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the period	**7,043**	**48,988**
Add back:		
Income tax	1,756	13,875
Finance income	(4,113)	(3,957)
Finance costs	214	278
Depreciation and amortisation	44,479	34,052
EBITDA (1)	49,379	93,236
Adjustments to EBITDA:		
Gain on disposal of available-for-sale investments	-	(31,115)
Loss on re-measurement of assets held for sale	-	4,718
Non-specific impairment of property, plant and equipment	241	303
Impairment of available-for-sale investments	18,941	12,661
Impairment of promissory notes	9,772	-
Reversal of impairment of investments of associates	(313)	-
Add back:		
Finance income	4,113	3,957
Adjusted EBITDA (1)	**82,133**	**83,760**

(1) Unaudited.

Liquidity ratios and other measures

(in millions of rubles, except for ratios)	As at 31 December 2012	As at 31 December 2011
Current liquidity ratio (1)	1.37	1.89
Cash liquidity ratio (2)	0.69	1.01
Total equity / Total assets ratio (3)	0.72	0.77
Net debt (4)	168,002	85,232

(1) Current liquidity ratio is calculated as total current assets divided by total current liabilities. For the purpose of this ratio, the amounts received from shareholders of Federal Grid Company for the additional share issues prior to the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company) are excluded from current liabilities;

(2) The cash liquidity ratio is calculated as a sum of cash and cash equivalents, short-term bank deposits and short-term promissory notes divided by total current liabilities. For the purpose of this ratio, the amounts received from shareholders of Federal Grid Company for the additional share issues prior to the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company), are excluded from current liabilities;

(3) For the purpose of this ratio, the amounts received from shareholders of Federal Grid Company for the additional share issues before the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company) are treated as an element of equity;

(4) Net debt represents non-current and current debt reduced by cash and cash equivalents, short-term bank deposits and short-term promissory notes.

Revenues

The Group's revenues are derived primarily from the provision of electricity transmission services. Changes in this type of revenues are primarily dependent on changes in tariffs set by the FTS. The Group also earns revenues from the sale of electricity generated and sold to third parties by the Group's subsidiaries.

The Group's revenues increased by RUR742 million, or 0.5%, from RUR139,571 million for the year ended 31 December 2011 to RUR140,313 million for the year ended 31 December 2012.

The table below sets out the Group's revenues for the periods indicated:

(in millions of rubles, except for percentages)	Year ended 31 December 2012	Percentage of total revenue	Year ended 31 December 2011	Percentage of total revenue	Percentage change between the years ended 31 December 2012 and 2011
Transmission fee	136,559	97.3%	134,754	96.6%	1.3%
Electricity sales	2,251	1.6%	2,246	1.6%	0.2%
Other revenues	1,503	1.1%	2,571	1.8%	(41.5)%
Total revenues	140,313	100.0%	139,571	100.0%	0.5%

Transmission fee

The Group's revenue from electricity transmission services increased RUR1,805 million, or 1.3%, from RUR134,754 million for the year ended 31 December 2011 to RUR136,559 million for the year ended 31 December 2012, primarily as a result of an increase in tariffs for transmission services established by the FTS (from 01.07.2012) which was partially compensated by a decrease in revenues from compensation of normative technologic electricity losses.

Electricity sales

The Group's revenue from electricity sales slightly increased by RUR5 million, or 0.2%, from RUR2,246 million for the year ended 31 December 2011 to RUR2,251 million for the year ended 31 December 2012.

Other revenues

Other revenues include revenues from connection services and grid repair and maintenance services. The Group's other revenues decreased by RUR1,068 million, or 41.5%, from RUR2,571 million for the year ended 31 December 2011 to RUR1,503 million for the year ended 31 December 2012.

Other operating income

Other operating income primarily includes income from non-core activities. The Group's other operating income decreased by RUR4,250 million, or 54.5%, from RUR7,793 million for the year ended 31 December 2011 to RUR3,543 million for the year ended 31 December 2012 primarily due to one-off effects in 2011: write-off of accounts payable of OJSC "Nurenergo" in the amount of RUR2,747 million and insurance compensation for the accident at Chagino substation.

Operating expenses

The table below sets out the Group's operating expenses for the periods indicated.

(in millions of rubles, except for percentages)	Year ended 31 December 2012	Percentage of total revenue	Year ended 31 December 2011	Percentage of total revenue	Percentage change between the years ended 31 December 2012 and 2011
Depreciation of property, plant and equipment and amortisation of intangible assets	44,479	40.2%	34,052	33.8%	30.6%
Employee benefit expenses and payroll taxes	26,311	23.8%	24,046	23.9%	9.4%
Purchased electricity	13,320	12.0%	13,781	13.7%	(3.3)%
Repair and maintenance services	3,732	3.4%	3,666	3.6%	1.8%
(Reversal) / accrual of allowance for doubtful debtors	(1,405)	(1.3)%	4,305	4.3%	-
Other expenses	24,193	21.9%	20,900	20.7%	15.8%
Total operating expenses	**110,630**	**100.0%**	**100,750**	**100.0%**	**9.8%**

(1) As presented in comparative information in the 2012 audited consolidated financial statements.

The Group's operating expenses increased by RUR9,880 million, or 9.8%, from RUR100,750 million for the year ended 31 December 2011 to RUR110,630 million for the year ended 31 December 2012.

Depreciation of property, plant and equipment and amortisation of intangible assets

The Group's depreciation and amortisation expenses increased by RUR10,427 million, or 30.6%, from RUR34,052 million for the year ended 31 December 2011 to RUR44,479 million for the year ended 31 December 2012, primarily due to new property, plant and equipment put into operation..

Employee benefit expenses and payroll taxes

The Group's employee benefits expenses and payroll taxes expenses increased by RUR2,265 million, or 9.4%, from RUR24,046 million for the year ended 31 December 2011 to RUR26,311 million for the year ended 31 December 2012. The growth is primarily explained by an increase in the average number of employees by 4.4% and an increase in average salaries due to indexation of remuneration. The increase was partially compensated by a decrease in recognition of share-based compensation in accordance with the Option program (by RUB 737 million) due to oncoming vesting date.

Purchased electricity

Federal Grid Company purchases electricity to compensate electricity losses which occur during transmission. The Group's electricity purchases dropped by RUR461 million, or 3.3%, from RUR13,781 million for the year ended 31 December 2011 to RUR13,320 million for the year ended 31 December 2012. The decrease in purchased electricity expenses was due to a reduction of actual volumes of electricity losses during transmission owing to increased the UNEG efficiency as well as a result of decreased wholesale electricity prices.

Repair and maintenance services

The Group's expenses for repair and maintenance services obtained from external contractors slightly increased by RUR66 million, or 1.8%, from RUR3,666 million for the year ended 31 December 2011 to RUR3,732 million for the year ended 31 December 2012.

(Reversal) / accrual of allowance for doubtful debtors

After a detailed analysis of accounts receivable as at 31 December 2012, the Group recognised a net reversal of the allowance for doubtful debtors in the amount of RUR1,405 million for the year ended 31 December 2012. This amount includes a reversal of the previously impaired receivables for transmission services from OJSC "IDGC of Siberia" in the amount of RUR2,714 million. For the year ended 31 December 2011, the Group recognised a net accrual of the allowance in the amount of RUR4,305 million.

Gain on disposal of available-for-sale investments

The gain of RUR31,115 million recognised in 2011 resulted from accumulated gain on available-for-sale investments recycled to profit or loss, in connection with the one-off transfer of shares in electricity generating companies to OJSC "INTER RAO UES" ("INTER RAO").

Loss on re-measurement of assets held for sale

In 2011, all investments previously classified as non-current assets held for sale, except for JSC UES "GruzRosEnergo", were transferred to INTER RAO. Loss on re-measurement of these assets amounted to RUB 4,718 million.

Reversal of impairment / (impairment) of property, plant and equipment

For the year ended 31 December 2012 the Group recognised a net reversal of an impairment of property, plant and equipment in the amount of RUR53 million. For the year ended 31 December 2011 the Group recognised a net impairment of property, plant and equipment in the amount of RUR1,174 million, which primarily consisted of an impairment of advances to construction companies and suppliers of property, plant and equipment.

Finance income

Finance income increased by RUR156 million, or 3.9%, from RUR3,957 million for the year ended 31 December 2011 to RUR4,113 million for the year ended 31 December 2012, primarily due to an increase in interest income.

Financial costs

Finance costs decreased by RUR64 million, or 23.0%, from RUR278 million for the year ended 31 December 2011 to RUR214 million for the year ended 31 December 2012, primarily due to a decrease of loss on initial recognition of promissory notes.

Impairment of available-for-sale investments

Impairment of available-for-sale investments increased by RUB 6,280 million, or 49.6%, from RUR12,661 million for the year ended 31 December 2011 to RUR18,941 million for the year ended 31 December 2012. The loss recognised in both years was attributable to an impairment of shares in INTER RAO due to a significant and prolonged decline in the fair value of these equity investments below their cost. The increase in impairment loss was due to the fact that shares in INTER RAO were held by the Group for the whole year of 2012 and only for nine months in 2011.

Impairment of promissory notes

In the year ended 31 December 2012 the Group fully impaired long-term promissory notes issued by LLC "ENERGO-finance" which resulted in recognition of a net impairment of promissory notes in the amount of RUR9,772 million.

Reversal of impairment of investments in associates

For the year ended 31 December 2012 the Group received the results of an independent appraisal of property, plant and equipment of JSC UES "GruzRosEnergo". According to it, the fair value of the Group's interest in net assets of the entity increased, therefore the impairment provision accrued in 2007 and 2011 in the total amount of RUR313 million was reversed.

Share of results of associates

The share of results of associates increased by RUR13 million, or 162.5%, from a net income of RUR8 million for the year ended 31 December 2011 to a net income of RUR21 million for the year ended 31 December 2012.

Profit before income tax

Profit before income tax decreased by RUR54,064 million, or 86.0%, from RUR62,863 million for the year ended 31 December 2011 to RUR8,799 million for the year ended 31 December 2012.

Income tax

Income tax expense decreased by RUR12,119 million, or 87.3%, from RUR13,875 million for the year ended 31 December 2011 to RUR1,756 million for the year ended 31 December 2012. Change in income tax expense was caused by a decrease of current income tax in the amount of RUR6,959 million, as a result of reduction the tax base, as well as a decrease of deferred income tax in the amount of RUR5,160 million.

Profit for the period

As a result of the above-mentioned factors, profit for period decreased by RUR41,945 million, or 85.6%, from RUR48,988 million for the year ended 31 December 2011 to RUR7,043 million for the year ended 31 December 2012.

Liquidity and Capital Resources

The Group's primary sources of liquidity are cash generated via operating activities and debt and equity financing. Future requirements for the Group's business needs, including those to fund additional capital expenditures in accordance with its business strategy, are expected to be financed by a combination of cash flows generated by the Group's operating activities, as well as external financing sources and funds from the Russian Government.

Capital requirements

The electricity transmission business is capital-intensive and many of the Group's facilities are aging and require regular maintenance and upgrades. Expenditures to maintain, expand and increase the efficiency and size of the transmission grid are, accordingly, an important priority and have a significant effect on the Group's cash flows and future operating results.

The table below sets out total additions to property, plant and equipment for the periods indicated.

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Total additions to property, plant and equipment	162,232	166,073

Liquidity and working capital

ΓThe Group relies on cash from its operating activities, debt financing and proceeds from the issuance of additional shares of the Company as its main sources of liquidity and working capital.

Historical cash flows

The table below summarizes the Group's cash flows for the periods indicated.

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Net cash generated by operating activities	70,306	68,645
Net cash used in investing activities	(145,711)	(124,743)
Net cash generated by financing activities	73,834	68,152
Net (decrease) / increase in cash and cash equivalents	(1,571)	12,054

Net cash generated by operating activities

Net cash generated by the Group's operating activities increased by RUR1,661 million, or 2.4%, from RUR68,645 million for the year ended 31 December 2011 to RUR70,306 million for the year ended 31 December 2012. This happened primarily due to a decrease in income tax payments which was partially offset by a decrease in operating cash flows before working capital changes and income tax paid.

Net cash used in investing activities

Net cash used in the Group's investing activities increased by RUR20,968 million, or 16.8%, from RUR124,743 million for the year ended 31 December 2011 to RUR145,711 million for the year ended 31 December 2012. This happened primarily due to a decrease in proceeds received from redemption of promissory notes by RUR19,563 million and redemption of bank deposits by RUR6,084 million.

Net cash generated by financing activities

Net cash generated by the Group's financing activities increased by RUR5,682 million, or 8.3%, from RUR68,152 million for the year ended 31 December 2011 to RUR73,834 million for the year ended 31 December 2012. This happened primarily due to a decrease in repayment of current borrowings (by RUB 6,400 million) and in dividends paid (by RUB 2,543 million) as well as an increase in proceeds from non-current borrowings (by RUB 2,500 million), which was partially compensated by an increase in interest paid (by RUB 6,659 million).

Debt

As at 31 December 2012, the Group's total debt amounted to RUR216,418 million as compared with RUR132,780 million as at 31 December 2011.

The following table sets out the Group's current debt and non-current debt for the periods indicated.

(in millions of rubles)	As at 31 December 2012	As at 31 December 2011
Current debt and current portion of non-current debt	23,218	2,002
Non-current debt	193,200	130,778
Total debt	**216,418**	**132,780**

As at 31 December 2012, the Group's non-current debt amounted to RUR193,200 million and was comprised of certified interest-bearing non-convertible ruble-denominated bearer bonds with an aggregate nominal value of RUR130,000 million, Stock Exchange authorised certified interest-bearing non-convertible ruble-denominated bearer bonds with a nominal value of RUR10,000 million, loan participation notes with a nominal value of RUR17,500 million, long-term bank loans from OJSC "Gazprombank" in the total amount of RUR35,000 million, and a long-term portion of finance lease liabilities of RUR700 million.

Disclaimer

This Annual Financial Report has been prepared for shareholders of Joint Stock Company "Federal Grid Company of Unified Energy System" (the Company) as a body and for no other persons. The Company, its directors, employees, agents or advisers do not accept responsibility for any other person to whom this document is shown or into whose hands it may reach and any such responsibility or liability is expressly disclaimed against.

By their very nature, statements concerning risks and uncertainties that the Company faces in this Annual Financial Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those that are anticipated. The forward-looking statements contained in this Annual Financial Report reflect knowledge and information that were available at the date of preparing this Annual Financial Report and the Company undertakes no obligation to update these forward-looking statements. Further, nothing in this Annual Report should be construed as a profit forecast".

Responsibility Statement

I hereby confirm that to the best of my knowledge:

(a) the consolidated financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair value of the assets, liabilities, financial position and profit or loss of Federal Grid Company UES Group, and the undertakings included in the consolidation taken as a whole (the "Group"); and

(b) the management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that are faced.

Andrey Kazachenkov,

First Deputy Chairman of the Management Board,

Member of the Management Board

23 April 2013

INFORMATION ON TRANSACTIONS PERFORMED BY JSC FEDERAL GRID COMPANY IN 2012, RECOGNIZED BY RUSSIAN FEDERATION LAWS AS INTERESTED PARTY TRANSACTIONS, AND WHICH ARE SUBJECT TO THE APPROVAL OF THE COMPANY'S AUTHORIZED MANAGEMENT BODY:

1. The approval of the Agreement on Process Information Exchange concluded by and between JSC Federal Grid Company and JSC RusHydro. The Agreement contains no monetary obligations and does not stipulate the transfer of any property (property rights) (Minutes #151 of the Company's Board of Directors, dated 27.01.2012);

2. The approval of the Agreement on the termination concluded by and between JSC Federal Grid Company and JSC Kubanenergo and terminating the lease of locations for the installation of electric energy metering equipment and devices entitled AIMS CMEE of the external perimeter and internal generation of JSC Kubanenergo, dated 21.04.2008, #233. The price of the Agreement is not determined, based on the nature of the transaction (Minutes #156 of the Company's Board of Directors, dated 23.03.2012);

3. The approval of Additional Agreement #9 to the Construction Customer Agreement concluded by and between JSC Federal Grid Company and JSC CIUS UES, dated 01.04.2008, #C/01. The price of the Additional Agreement, taking into account the fixed and variable parts, should not exceed RUR2 732 000 000 (two billion, seven hundred and thirty-two million), plus VAT (18%), in accordance with Russian Federation laws, thus totaling RUR491 760 000 (four hundred and ninety-one million, seven hundred and sixty thousand) (Minutes #160 of the Company's Board of Directors, dated.05.2012);

4. The approval of the Agreement for the lease of non-residential premises, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The lease payment per the Agreement amounts to RUR113 591 (one hundred and thirteen thousand, five hundred and ninety-one) and 72 kopecks (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

5. The approval of the Agreement for the lease of non-residential premises, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The lease payment per the Agreement amounts to RUR13 219 866 (thirteen million, two hundred and nineteen thousand, eight hundred and sixty-six), including VAT (18%) in the amount of RUR2 016 589 (two million, sixteen thousand, five hundred and eighty-nine) and 74 kopecks (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

6. The approval of the additional agreements to the Agreement on the Use of Organizational Standards, dated 23 May 2011. Due to the fact that the conclusion of additional agreements to the Agreement on the Use of Organizational Standards as of 23.05.2011 does not and cannot involve any monetary obligations, and stipulates no transfer of property (property rights), the price of additional agreements #1 and #2 is not determined (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

7. The approval of the services agreement pertaining to accessing the electronic document flow system of the Corporate Information System of the Electronic Signature Verification Center, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The price of the Agreement is determined based on the volume of services pertaining to the manufacture of a key. The price amounts to RUR5 849 (five thousand, eight hundred and forty-nine) and 35 kopecks (including VAT) (Minutes # 160 of the Company's Board of Directors, dated 11.05.2012);

8. The approval of the Agreement on the transfer and safekeeping of Information that makes up a trade secret for JSC Federal Grid Company, concluded by and between JSC Federal Grid Company and JSC CIUS UES. Due to the fact that the agreement contains no monetary obligations and stipulates no transfer of property (property rights), the price of the Agreement between JSC Federal Grid Company and JSC CIUS UES described above is not determined (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

9. The approval of the Liability Insurance Agreement pertaining to insuring the liability of members of the Board of Directors, members of the Management Board and the Chief Accountant of JSC Federal Grid Company. The insurance premium per the Agreement does not exceed RUR15 000 000 (fifteen million) (VAT exempt) (Minutes #162 of the Company's Board of Directors, dated 25.05.2012);

10. The approval of additional agreement #10 to the Construction Customer Agreement concluded by and between JSC Federal Grid Company and JSC CIUS UES, dated 01.04.2008, #C/01. The price of the additional agreement taking into account the fixed and variable parts should not exceed RUR2 930 000 000 (two billion, nine hundred and thirty million), plus VAT (18%), in accordance with Russian Federation laws, thus amounting to RUR527 400 000 (five hundred and twenty-seven million, four hundred thousand) (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

11. The approval of the additional agreement to Agreement #20/10 "Life tests and the adaptation of the high temperature super-conductor of 200m long cable lines and a cryo-system for the pilot industrial operation at the 110 kV Dynamo SS", concluded by and between JSC Federal Grid Company and JSC ENIN. The additional agreement makes no changes in the price of the Agreement (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

12. The approval of the conclusion of the Agreement of Intent by and between JSC Federal Grid Company and JSC DVEUK to consolidate electric power facilities on Russky Island. Due to the nature of the transaction, the price of the Agreement between JSC Federal Grid Company and JSC DVEUK is not set (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

13. The approval of the agreement for operational servicing, repair, maintenance and diagnostic inspection of power grid facilities, concluded by and between JSC Federal Grid Company and JSC DVEUK. The price of the Agreement amounts to RUR3 182 763 (three million, one hundred and eighty-two thousand, seven hundred and sixty-three) and 28 kopecks, including VAT (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

14. The approval of the agreement for the lease of real estate property concluded by and between JSC Federal Grid Company and JSC CIUS UES. The price of the agreement for the entire duration of the lease of real estate property concluded between JSC Federal Grid Company and JSC CIUS UES amounts to RUR8 910 036 (eight million, nine hundred and ten thousand and thirty-six) and 41 kopecks, including VAT (Minutes #166 of the Company's Board of Directors, dated 28.06.2012);

15. On the approval of the agreement for the lease of real estate property concluded by and between JSC Federal Grid Company and JSC CIUS UES. The price of the agreement for the entire duration of the lease of real estate property amounts to RUR8 910 036 (eight million, nine hundred and ten thousand, thirty-six) and 41 kopecks (Minutes #166 of the Company's Board of Directors, dated 02.07.2012);

16. On the approval of the agreement on the transfer of authorities of a sole executive body of the Joint Stock Company Inter-regional Distribution Grid Holding, concluded by and between JSC IDGC Holding and JSC Federal Grid Company. The price of the Agreement is equal to remuneration to the Management Organization, as calculated in accordance with the procedure set by the Agreement. Till the Board of Directors approves the KPI system and the procedure for setting remuneration for the Management Organization, remuneration to the Management Organization amounts to RUR3 300 000 (three million, and three hundred thousand) per month (Minutes #168 of the Company's Board of Directors, dated 09.07.2012);

17. On the approval of Additional Agreement #3 to the Agreement on the Use of Organizational Standards, dated 23 May 2011. The transaction contains no monetary obligations, therefore no price is determined (Minutes #171 of the Company's Board of Directors, dated 24.08.2012);

18. On the approval of the conclusion of the agreement between Kovalchuk Boris Yurievich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

19. On the approval of the conclusion of the agreement between Kracvhenko Vyacheslav Mikhailovich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

20. On the approval of the conclusion of the agreement between Rashevsky Vladimir Valerievich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

21. On the approval of the conclusion of the agreement between Titova Elena Borisovna, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

22. On the approval of the conclusion of the agreement between Scherbovich Ilya Viktorovich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

23. On the approval of the conclusion of the agreement between Ayuev Boris Ilyich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

23. On the approval of the conclusion of the agreement between Ayuev Boris Ilyich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

24. On the approval of the conclusion of the agreement between Malyshev Andrey Borisovich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

25. On the approval of the conclusion of the agreement between Ernesto Ferlenghi, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

26. On the approval of Additional Agreement #1 to the agreement on the transfer of the authorities of a sole executive body of Joint Stock Company Inter-regional Distribution Companies Holding #1007, dated 10.07.2012. The price of the Additional Agreement is equal to the price of remuneration due to the Management Organization, said remuneration calculated in accordance with Appendix #1 to the Additional Agreement, and the Procedure for the Calculation of Remuneration and Payment for the Services of the Management Organization (Appendix #1 to the Minutes). The amount of remuneration due to the Management Organization calculated and paid in accordance with the Agreement shall not comprise 2 (two) or more percent of the Company's net book value on the last reporting date prior to the conclusion of the Agreement (Minutes #173 of the Company's Board of Directors, dated 17.09.2012);

27. On the approval of the agreement for the sub-lease of real-estate property, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The lease payment set by the Parties in the amount of RUR6 179 587 (six million, one hundred and seventy-nine thousand, five hundred and eighty-seven) and 53 kopecks monthly for the fixed part, in accordance with Appendix #2 to the Sub-lease Agreement, plus VAT in the amount of RUR1 112 325 (one million, one hundred and twelve thousand, three hundred and twenty-five) and 75 kopecks. The variable part of the lease payment shall be determined on the basis of invoices presented by utility services to the Lessee for services pertaining to the functioning and maintenance of the building containing non-residential premises transferred to the sub-lease per the Agreement (Minutes #177 of the Company's Board of Directors, dated 09.11.2012);

28. On the approval of the agreement pertaining to the provision of special expert assessment services, concluded by and between JSC Federal Grid Company and JSC Inter RAO UES. The price of the Agreement amounts to RUR50 000 (fifty thousand), including VAT (18%) in the amount of RUR7 627 (seven thousand, six hundred and twenty-seven) and 12 kopecks (Minutes #177 of the Company's Board of Directors, dated 09.11.2012);

29. On the approval of the agreement pertaining to the provision of special expert assessment services, concluded by and between JSC Federal Grid Company and the Market Council Non-Commercial Partnership. The price of the Agreement amounts to RUR50 000 (fifty thousand), including VAT (18%) in the amount of 7 627 (seven thousand, six hundred and twenty-seven) and 12 kopecks (Minutes #177 of the Company's Board of Directors, dated 09.11.2012);

30. On the approval of the conclusion of the Compensation Agreement (220/35/10 kV Poshekhonye Substation) for the complex technical re-equipment and reconstruction of the 220 kV Poshekhonye Substation), concluded by and between JSC Federal Grid Company and JSC IDGC of Center. The amount of the compensation due is set in accordance with p.3.1 and Appendix # 2 to the Compensation Agreement. The compensation amounts to RUR21 145 389 (twenty-one million, one hundred and forty-five thousand, three hundred and eighty-nine) and 39 kopecks, including VAT (18%) in the amount of RUR3 225 567 (three million, two hundred and twenty-five thousand, five hundred and sixty-seven) and 87 kopecks (Minutes #182 of the Company's Board of Directors, dated 29.11.2012);

31.On the approval of the sales agreement entitled "The Purchase of Power Grid Facilities on Valaam Island from JSC IDGC Holding", concluded by and between JSC Federal Grid Company and JSC IDGC of North-West. The price of the Agreement amounts to RUR14 111 620.00 (fourteen million, one hundred and eleven thousand, six hundred and twenty), including VAT (18%) in the amount of RUR2 152 620 (two million, one hundred and fifty-two thousand, six hundred and twenty) (Minutes #183 of the Company's Board of Directors, dated 25.12.2012);

Audit Commission Conclusion on the Audit of Operational and Financial Activities of Federal Grid Company for 2012

Appendix No. 2
to the Minutes of the Meeting
of the Audit Commission
No. 6 dated 30 April 2013

Moscow 30 April 2013

In compliance with Federal Law No.208-FZ "On Joint Stock Companies" dated 24 November 1995, the Articles of Association of Federal Grid Company, and the Plan of Audit of Federal Grid Company's operational and financial activities for 2012 (Minutes of Meeting No.1 dated 30 July 2012 and Minutes of Meeting No.3 dated 20 January 2013 respectively), an audit has been conducted of the 2012 annual report by the Company.

Based on this audit, and taking into account the findings of the audit of Federal Grid Company's financial (bookkeeping) accounts by RSM Top-Audit (No.EL-489 dated 18 March 2013) for 2012, the following conclusions were reached:

— Information contained in the Federal Grid Company's Annual Report and annual financial accounts for 2012 can be considered accurate in every significant respect;

— No evidence has been found of any violations of accounting procedures or financial reporting regulations, as stipulated by Russian laws.

Considering the above, the Audit Commission of Federal Grid Company has sufficient grounds to confirm the veracity, in every significant respect, of data contained in the Annual Report of Federal Grid Company and the Company's 2012 annual statements in all significant accounts.

This Conclusion has been made in three copies: the first copy has been enclosed in the Audit Commission's file; the second copy has been sent to the Company's Chairman of the Management Board; and the third copy has been sent to the Board of Directors of the Company.

Chairman of the Audit Commission of Federal Grid Company V. Raspopov

Members of the Audit Commission A. Kolyada
A. Drokova

2013 Investor Calendar

23-25 January	Sector-Russia Investment Conference organized by Deutsche Bank (London)
20 March	Publication of 2012 RAS Financial Statements
23 April	Publication of Financial Statements according to the FSA's requirements, including 2012 IFRS Financial Statements
6 May	Publication of Q1 2013 RAS Financial Statements
13 June	Meeting with Minority Shareholders
27 June	The Annual General Shareholders Meeting
1 August	Publication of H1 2013 RAS Financial Statements
2 September	Publication of H1 2013 IFRS Financial Statements
1 November	Publication of Q3 2013 RAS Financial Statements