2013

POWER LINE FOR DEVELOPMENT

ANNUAL REPORT

Federal Grid Company

Federal Grid Company is a unique infrastructure company that provides reliable and uninterrupted electric power transmission through backbone electric grids in the Russian Federation, and a **world leader** among public electric grid companies in terms of the length of power **transmission lines** and **transformer capacity** — **135,000 km** and **332,000 MWA** respectively.

We ensure reliable, uninterrupted and safe supply of electricity to our customers by continuous **investments** in improving and expanding the electric power infrastructure using advanced **innovative technologies**. The amount of **capital investments** deployed in 2013 was **RUB174.8 billion.**

We are a **customer-oriented** company that provides customers with high-quality services and we strive to constantly enhance the quality of interactions with all our **stakeholders** in order to maintain **sustainability** of our long-term development.

Federal Grid Company is a **public company** whose securities are traded on Russian and foreign stock exchanges. As of 2013, the Company's **revenues** came to **RUB155 billion**, market **capitalisation** amounted to **RUB115 billion**.

Information on Annual Report

This Annual Report contains 2013 performance results of Joint Stock Company "Federal Grid Company of Unified Energy System" ('JSC FGC UES', 'Federal Grid Company', 'Federal Grid' or 'the Company').

The Annual Report was preliminary approved by the Board of Directors of Federal Grid Company, Minutes No. 215 dated 15.05.2014.

Chairman of the Management Board — A. Murov

Chief Accountant — A. Noskov

Power Line for Development

In mathematical economics, a turnpike is the trajectory of economic growth characterised by maximum speed and balance. In other words, a turnpike is the trajectory of ideally balanced growth. In Russian, this term is synonymous with "**power line**" in that context.

A strategic priority for Federal Grid Company is to maintain and develop the Unified National Electric Grid – the **electric grid power line infrastructure** to support the economic growth in Russia and provide an uninterrupted power supply to the consumers in all regions of the country

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Power Line for Developement

Dear shareholders!

The global economic situation in 2013 affected, to some extent, the largest electricity consumers, and many of them had to adjust their production plans downwards. However, despite all external circumstances, the volume of power transmission services provided by the Company increased by 0.6%, or by more than 2.9 million kWh.

In 2013, we continued to improve the reliability of the Unified National Electric Grid's operations. We managed to reduce the accident rate by 12%, and our actual power losses were below the targets that had been approved by the Russian Ministry of Energy.

Federal Grid Company delivered power that was essential for the implementation of major industrial and infrastructure projects in Russia. They included commissioning the energy ring in St Petersburg that ensures energy balance and a reliable electricity supply to the northern capital, the construction and reconstruction of facilities required for the provision of a stable electricity supply to major international events within Russia, important industrial enterprises, community facilities and citizens. We commissioned an upgraded 220 kV Zarechnaya substation in Nizhny Novgorod designed to become one of the main power sources for facilities at the 2018 FIFA World Cup; reconstructed the 330 kV Chudovo substation, which is one of the key supply centres for the Novgorod oblast; commissioned, prior to the scheduled date, a 500 kV Pomary–Udmurtskaya power line that enhanced connection between the Middle Volga and the Ural regions and ensured a reliable electricity supply for the 2013 World Summer Universiade in Kazan.

We should also say that Federal Grid Company made a considerable contribution to the development of the energy infrastructure of the city of Sochi. We have successfully completed construction of transmission lines and substations that ensured a reliable electricity supply for the Winter Olympic Games.

A systemic change in the way the electric grid complex is managed became a milestone event for Federal Grid Company in 2013. The consolidation of transmission and distribution assets within the Russian Grids group followed by the implementation of uniform technical standards and the creation of a unified emergency system opened up new opportunities to improve the reliability and efficiency of the electricity supply and the quality of services we provide.

In 2013, the Development Strategy for the Russian Electric Grid Complex was approved. This document enables us to make our planning process more exact and transparent and to align our operations with those of the whole energy system of Russia. These and other aspects will be reflected in the Company Development Strategy that we expect to approve in 2014.

Our strategic priorities in the short term will remain broadly unchanged. While improving the electric grid complex's reliability and efficiency, we intend to improve our financial performance.

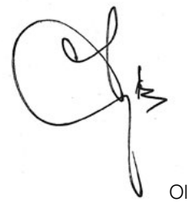
We will continue to improve our corporate governance framework and develop relations with the Company's stakeholders. An important incentive for our work in this area will be the adoption of a new Russian Code of Corporate Governance and new listing rules which will soon come into effect. As a large public company, we will have to make our internal documents, rules and procedures consistent with the new governance requirements and recommendations in order to improve the efficiency of the Company's operations and competitiveness, and strengthen consumer and investor confidence.

The implementation of social projects remains one of our priorities. We will continue to improve housing conditions for our employees, provide benefits to young specialists, cooperate with higher-education institutions in Russia and support young researchers and the academic community.

A detailed discussion of Federal Grid Company's achievements in sustainable development is available in the Social Responsibility and Corporate Sustainability Report, which is published annually.

In 2014, our tasks include the further development of Federal Grid Company and the implementation of our investment projects. We will have to commission new and reconstructed grid facilities in accordance with agreed-upon schedules, and improve the efficiency of our core business processes. We have all the necessary resources for doing so, as well as the support and confidence of shareholders and the government, a professional team of employees and clear and well-defined strategic goals.

I am sure that future decisions of the Board of Directors and initiatives of our management will contribute to the further strengthening of the electricity grid infrastructure and to increasing the reliability of our customers' electricity supply.



Oleg Budargin
Chairman of the Board of Directors

Statement from the Chairman of the Management Board

Infractructure for the economy

Andrey Murov, Chairman of the Management Board of Federal Grid Company, describes the key 2013 results and the Company's prospects.

Operational and Financial Results

Last year, 2013, presented major challenges and tasks for Federal Grid Company. Our main achievements were the implementation of the power supply project for the Sochi Olympic and Paralympic Games, the absence of power failures caused by flooding in the Far East, the construction of facilities for the Kazan Universiade and a number of projects that are less noticeable though equally important for our customers and UNEG's reliability.

Our Company has completed its investment programme. The commissioning value was 120%, or RUB169.4 billion. We commissioned 3,690 km of electricity transmission lines and 10,793 MVA of transformer capacity. In 2013, we connected large industrial facilities, improved the reliability of the electricity supply to metropolises and worked in the most remote areas of the country.

The volume of electricity transmission services has increased. In 2013, Federal Grid transmitted 520 billion kWh, which is 0.55% more than the previous year.

It is important that Federal Grid Company demonstrate financial stability even while dealing with a heavy workload conditions. Our consolidated revenues grew by 12% as compared to the previous reporting period. Adjusted EBITDA for 2013 amounted to RUB96.3 billion, which is 16% above that of the previous year. Our debt burden remains at an acceptable level.

In October, the international rating agency Fitch Ratings Ltd assigned Federal Grid Company a Long-term foreign currency Issuer Default Rating of 'BBB' (similar to sovereign), which confirmed our security on capital markets.

Investments and Development

Federal Grid Company will continue to build an infrastructure to support the development of Russia's economy. We have gained valuable experience that will help us to achieve new ambitious targets. Our investment programme up to 2019 includes the construction of the electric grid infrastructure for Transsib and BAM with an enhanced transfer capacity, power supply of facilities for the East Siberia–Pacific Ocean oil pipeline, the Polyus Gold facilities in the Amur River region and Udokan Mining & Refining Plant facilities in Transbaikal. New energy infrastructure facilities will be constructed for major international sport events, including the 2018 FIFA World Cup and the 2019 Krasnoyarsk Universiade.

As before, our key investment priorities will reflect the development priorities of the Russian economy and society at large. Traditionally, Federal Grid Company has invested in increasing the reliability and safety of the power supply. Improving customer satisfaction, facilitating technical connection and enhancing the accessibility of electric grid facilities are at the forefront of this. In terms of geographical position, particular importance is given to East Siberia and the Russian Far East, which were named among the areas of fastest economic growth. Human capital development and opportunities for young professionals are among our social policy priorities.

I would like to especially focus on innovations and technological development. Our completed projects include dozens of new process solutions. One of the 2013 outcomes in this area was a reference architecture template for a smart electric energy system that will be the core element for upgrading electric grids. Federal Grid Company intends to use the most sophisticated, efficient technologies and encourage and rely on home-grown solutions.

The development of equipment manufacturing in Russia is of material significance for us. The share of domestically made equipment procured by Federal Grid Company reached 38% in 2013, and we intend to increase it to at least 50% by the end of 2014. By using this approach, we will contribute to the achievement of strategic goals that are important for Russia, such as lowering dependence on imports, reforming the Russian industrial sector, developing the research community and creating new jobs.

Efficiency and Rationality

The current social and economic situation and the restriction on tariff growth dictate terms: the Company has planned major efforts to improve its performance. We expect a 25% reduction in operating expenses by 2017 (to the 2012 level) and a 30% reduction in construction costs (i.e. unit capital costs).

It will allow us to retain volumes of investment (i.e. commissioning new capacities by constructing new power lines and substations) and to maintain the Company's financial stability. In 2014, we expect revenue and the EBITDA margin to be at the level of 2013, provided that the net debt level remains below thresholds set by the Board of Directors.

We are looking for new sources of finance. A number of amendments to our regulatory documents have been adopted that will allow us to distribute the cost of construction of major technological connection facilities more fairly. The Company enjoys strong support from the government and is exploring the possibility of government financing for priority investment projects, including the development of the electric grid infrastructure for BAM and Transsib. We also plan to drive major consumer demand, including via a co-financing facility.

The Company is committed to open and transparent investment planning and performance analysis. In particular, the draft of Federal Grid Company's investment programme for 2015–2019 has undergone a public hearing procedure and the document has been made publicly available for the first time on the Russian Ministry of Energy's website. This is one more way for us to make the Company's operations more efficient at all stages.

Electricity transmission grids make up an underlying system of the economy. Their reliable and uninterrupted operation is fundamental to the country's energy security. While improving efficiency, we need to seek a balance between economic expediency and security.

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I firmly believe that we will be able to ensure the successful and sustainable long-term development of the Company by adhering to the principles of responsibility, professionalism and mutual trust and by building strong relations within the Company and with its customers, partners, shareholders, prospective investors and other stakeholders.

Andrey Murov
Chairman of the Management Board

Key Performance Indicators

	units	2009	2010	2011	2012	2013	increase 2013/2012
Financial highlights							
Revenues	RUB mln	85,078	111,085	138,137	138,836	155,352	11.9%
Cost (excluding management expenses)	RUB mln	64,080	75,680	84,174	106,650	120,725	13.2%
Adjusted EBITDA	RUB mln	40,379	67,405	84,683	82,809[1]	96,296	16.3%
Profit (loss) before tax	RUB mln	-54,049	67,312	11,444	-14,270[1]	-17, 672	-23.8%
Net profit (loss)	RUB mln	-59,866	57,082	-2,468	-24,532[1]	-25,898	-5.6%
Adjusted net profit (loss)	RUB mln	9,427	25,702	33,687	13,383[1]	16,758	25.2%
Adjusted net profit per share	RUB	0.0082	0.0208	0.0268	0.0106	0.0132	24.5%
Credit portfolio	RUB mln	13,000	56,000	130,000	212,500	282, 349	32.8%
Market capitalisation	RUB mln	367,971	452,717	351,138	253,905	114,600	-54.9%
Return on equity	%	1.4	3.3	4.1	1.6	2.0	0.4 pp
Return on net assets	%	2.2	3.8	5.4	1.7	4.0	2.3pp
Financial leverage		0.12	0.14	0.22	0.32	0.44	37.5%
Operating highlights							
Number of substations[2]	units	804	805	854	891	919	3.1%
Length of electricity transmission lines including leased lines	thousand km	121.1	121.7	124.6	131.6	135.1	2.7%
Transformer capacity of substations including leased substations	MVA	306,422	311,008	322,533	334,797[3]	332,009	2.4%
Declared capacity	MW	95,545	91,179	90,937	90,492	91,398	1.0%
Electricity supply to distribution grid companies, direct customers and independent energy joint stock companies, net	mln kWh	452,662	470,648	484,664	498,288	509,737	2.3%
Electricity supply via UNEG to neighbouring states, net[1]	mln kWh	13,628	15,716	19,285	15,769	12,974	-17.7%
Electricity losses within UNEG	mln kWh	22,121	22,526	22,553	21,946	22,262	1.4%
Accident rate[2]	units	2.78	3.20	2.64	2.29	1.95	-14.9%
Number of process disturbances caused by human errors	units	82	61	57	39	19	-51.3%
Actual implementation of the investment programme	RUB bn	106.0	167.0	184.7	179.9	149.7	-16.8%
Commissioning of electricity transmission lines	thou-sand km	1.4	2.2	3.0	3.6	3.7	1.3%
Commissioning of new capacities	MVA	7,946	10,416	18,502	17,827	10,793	-39.5%

[1] According to 2013 accounting statements (2012 data was subject to retrospective changes)
[2] Including leased facilities and outdoor switchgear and cells on the SS owned by other entities
[3] In 2012, transformer capacity of substations was reported with account of the capacity of boosting and regulating transformers. If the latter is excluded, the transformer capacity in 2012 was 324,672 MVA

[1] According to the WECM data
[2] Number of accidents per 1,000 units in maintenance.

Events in 2013

January

Innovations Federal Grid Company will build in Skolkovo an intelligent electricity supply network based on SmartGrid innovative technology. This project will be implemented under the Cooperative Agreement that Federal Grid and Skolkovo Foundation signed on 17 January.

February

Energy efficiency At the Krasnoyarsk Economic Forum, Federal Grid presented the key ways of improving energy efficiency of the Unified National Electric Grid: it discussed energy-saving technologies that are available to the Russian electric grid network, as well as international practices of reducing power transmission losses and their impact on the final tariff for customers.

Promotion of R&D Federal Grid Company and the Coordinating Council for Young People's Affairs in Science and Education at the Presidential Council for Science, Technologies and Education held a nationwide competition, "Energy Breakthrough", of science-intensive and innovating projects. Its objectives were to promote the creative capabilities of students majoring in energy, and proactively involve them in the Company's R&D.

March

Seasonal readiness The Company's repair teams had been brought to a state of increased readiness for a period of spring high-water river floods. These teams have the necessary special equipment and means of communication for dealing with any emergency situations at power facilities. On-schedule and off-schedule inspections of substation

equipment and foundations of buildings and facilities were held in all branches of the Company, and the conditions of emergency reserves were inspected.

Smart grids For the first time, Federal Grid Company participated in the fifth meeting of the Executive Committee of the International Smart Grid Action Network (ISGAN). Our participation in its work is based on the Company's large-scale efforts to build a smart power grid in Russia. This smart grid should improve the efficiency and competitiveness of the Russian grid system based on new innovative solutions and technologies.

Risk management Federal Grid hosted a seminar, "Internal Control and Risk Management System as a Tool for Improving Management Efficiency", for the heads of its structural units and subsidiaries. The main goal of this seminar was to integrate internal control in the daily management process and present the best international practices of risk management and internal audit

April

Power system reliability A Russia-wide meeting of electric power companies was held. The meeting acknowledged successful performance in the autumn and winter period of 2012 and 2013: equipment and grids performed reliably despite harsh weather conditions, the number of accidents at the Company's facilities dropped by 5.3% as compared to the previous autumn and winter period, the specific accident rate was down by almost 10% and injuries were also reduced.

May

New technologies For the first time in southern Russia, Federal Grid used an electrical conductor with cast insulation at 110 kW at the Stekolnaya substation (Republic of Dagestan). This helps to reduce transmission losses substantially, strengthen the transmission line and increase its service life significantly (to 40 years).

Building HR Capacity Federal Grid Company and St. Petersburg State Polytechnic University signed an agreement of cooperation in the area of professional training of mid-level technical specialists. The university-based polytechnic college Radiopolytechnicum will start enrolling students onto the "Electric Power Stations, Networks and Systems" course.

June

Changes in the ownership structure The Russian Federation, represented by Rosimushchestvo, transferred 79.64% of Federal Grid's shares to JSC Russian Grids, a unified management company which manages the Russian electric grid complex and will from now on supervise all electricity transmission and distribution grids.

Building HR Capacity A conference of young researchers, "Energy of the Unified Network", was held as part of the St. Petersburg Economic Forum. It discussed issues pertaining to the development of new electricity transmission technologies and mechanisms for involving young researchers in this process.

Infrastructure bonds The first tranche of Series 23 and Series 28 infrastructure bonds in the total amount of RUB30 billion with a maturity of 35 years, issued by Federal Grid Company, was placed at the Moscow Stock Exchange. The main investor was Vnesheconombank, which acts as a State management company that is a trust manager of pension savings.

July

Energy supply to the Universiade Federal Grid ensured the 27th World Summer Universiade held in Kazan on 6–17 July 2013 had a reliable electric power supply. Before sporting events began, the Company's specialists conducted engineer inspections of power transmission lines and equipment of substations that supply electric power to Kazan. The 500 kV Pomary–Udmurtskaya transmission line was commissioned ahead of schedule. It strengthened the systemic 500 kV line connecting the Middle Volga and Ural regions.

Federal Grid launched pilot projects that are part of the Russia-wide Programme for the Development of Charging Infrastructure for Electric Vehicles in Russia. The programme includes the building of a commercial network that will have 100 charging stations in Moscow and in the Kaluga oblast.

Liquidity of securities As of 1 July 2013, the Bank of New York Mellon replaced Deutsche Bank Trust Company Americas as the depository of the Company's global depository receipts (GDR) programme.

Electricity supply to IC Skolkovo. SS 220/20 20 kV Soyuz and SS 220/20 20 kV Skolkovo were commissioned to supply electric power to IC Skolkovo. These are the first underground substations in Russia; they have advanced innovative equipment including high-capacity batteries that accumulate power for substations' in-house needs, and SF6 gas- insulated transformers.

August

Infrastructure bonds Federal Grid raised a new tranche of long-term financing for its investment programme via issuance of Series 26 and 27 infrastructure bonds, to a total amount of RUB26 billion, with a maturity of 35 years.

Ensuring reliability The Company's specialists took part in the remedial work after flooding in the Russian Far East. Its main efforts focused on additional technical maintenance and the repair of power facilities in the flooded area, and on the procurement of equipment, special machinery and materials that were necessary to reduce flood losses.

September

Liquidity of securities VTB Capital was appointed as Federal Grid Company's market maker to work at the LSE's Main Market, with a view to strengthening investor relations and increasing the liquidity of GDRs.

Development of the customer-oriented approach Federal Grid established the Customer Council in order to take customers' opinions into account in its corporate decision-making process on improving accessibility of energy infrastructure, efficiency of operations and investments, customer-oriented approach, and social and information openness.

October

Consistency with the quality standards The Company's executive team successfully passed the second audit of environmental management system. The compliance audit was held by Russian Register, a certification organisation. Its findings confirmed the consistency of the Company's environmental management system with the requirements of international standard ISO 14001:2004.

Credit rating International rating agency Fitch Ratings assigned the Company long-term foreign and local currency Issuer Default Ratings (IDRs) of BBB with a Stable outlook.

Infrastructure bonds The Company received the second tranche of long-term funding by issuing Series 29 infrastructure bonds in the total amount of RUB20 billion, with a maturity of 35 years.

November

Renewal of the Management Board An extraordinary General Meeting of Shareholders held on 11 November elected Andrey Murov as Chairman of the Management Board. Before his election, Mr Murov was First Deputy Chairman of the Management Board. On 28 November the Company's Board of Directors terminated the powers of four Management Board members and appointed new members.

Decision about issuance On 12 November, the Board of Directors made a decision to increase the Company's charter capital by placing 9,431,399,773 additional common registered shares with the nominal value of 50 kopecks each, to a total amount in excess of RUB4.7 billion.

Innovations Power accumulation systems with high-capacity batteries were commissioned for the first time in Russia at SS Psou and SS Volkhov-Severnaya.

December

Preparedness for the Olympic Games Federal Grid Company fully met its obligations to prepare energy infrastructure facilities in Sochi to the Winter Olympics. The Company completed construction, in a timely way and to a high quality, of systemic power facilities in the region: 36 electric grid facilities including 326.6 km of cable transmission lines and 14 substations with a total capacity of 1,715 MVA.

Reliable and uninterrupted operations Federal Grid completed a three-year pilot testing of bunches of multi-chamber insulator-arresters that are radically new devices for the protection of power transmission lines during thunderstorms. The outcomes of these tests reaffirmed that these innovative devices will increase lightning-surge protection of the Company's facilities.

Environmental protection Federal Grid Company and the World Wildlife Fund (WWF) signed a cooperative agreement that envisages cooperation in such areas as improvement of efficiency and environmental safety of the Company's facilities, promotion of renewable sources of energy, protection of biodiversity, support to specially protected natural areas in Russia and sustainable forest management.

Technical Policy The Federal Grid's Board of Directors approved the Regulation of JSC Russian Grids on the Unified Technical Policy in the Electric Grid Complex as the Company's internal document.

Infrastructure bonds Federal Grid Company received a new tranche of long-term financing for its investment programme through issuance of Series 30 and 34 infrastructure bonds, to a total amount of RUB24 billion, with a maturity of 35 years.

Events after the Reporting Date

January 2014

Investment Programme The Federal Grid's Management Board approved the draft adjustments to the Investment Programme for 2014 and the Investment Programme for 2015-2019 in the amount of RUB675.9 billion. According to this programme, the Company should put into operation more than 20,000 km of transmission lines and capacity of more than 71,000 MVA.

February 2014

Transparency of investment planning Open hearings of Federal Grid's Investment programme for 2015–2019 were successfully completed in the Russian Ministry of Energy.

Corporate Governance Rating The Russian Institute of Directors (RID) confirmed Federal Grind's National Corporate Governance Rating at 7+. This rating proves that the Company complies with the Russian corporate legislation, follows the majority of recommendations of the Russian Code of Corporate Conduct and a number of best international practices.

March 2014

Consumers Federal Grid's Consumer Council that has been created according to the RF President's instruction held its first meeting in Moscow. The Council is designed to take into account the consumer opinions when making decisions that affect the prices of products and services of Federal Grid Company as a natural monopoly.

Environment Federal Grid took part in a worldwide event Earth Hour organised by the World Wide Fund for Nature (WWF). The Company turned off power for one hour at more than 200 facilities.

Building HR Capacity A new Personnel Training Centre was opened in St. Petersburg at the 220 kW Volkhov-Severnaya substation. This Centre is one-of-a-kind in the region with a potential to train more than 1,500 people annually.

NATIONAL CORPORATE GOVERNANCE RATING OF FEDERAL GRID COMPANY WAS CONFIRMED AT

7+ LEVEL

Federal Grid Company's Awards in 2013

- Winner of the RUIE's annual national competition "The Best Russian Companies: Dynamics, Efficiency and Responsibility – 2012" in the category "Building HR Capacity"
- Winner of the "Environment and Environmental Management" nomination in the competition among 100 best Russian organisations during the Seventh Annual National Conference "Environment and Production: Prospects for Development of Economic Tools for Environmental Protection"
- Winner of the National Annual Prize "IT LEADER –2013" among nominees in "Energy Companies". The prize was awarded for innovative operations, high achievements in IT, substantial contribution to the development of the national energy sector and its integration in the global community
- Winner of the prize "Leader of Competitive Procurement – 2013" organised by B2B Centre, an international centre of electronic trade, in the category "For Contribution to the Advancement and Promotion of Competitive Procurement"
- Federal Grid Company is one of three leaders among State-owned companies in terms of compliance with the federal rules of procurement and consistency with the best business practices in this area (findings of a survey conducted by Expert RA rating agency at the request of the National Association of Procurement Institutions)
- A long-term programme of corporate assistance for the improvement of Company employees' housing conditions and an innovative education project "Leaders of Change" (training employees for strategic succession pool) were acknowledged by the Russian Ministry of Energy at the Fourth Russian Personnel Conference "Human Capital in the Fuel and Energy Sector: A Strategy of Changes"
- The Company's 2012 Annual Report won the "The Best Annual Report (Non-financial Sector)" category at the 15th competition of annual reports held by Expert RA rating agency
- The interactive version of the Company's annual report won the third prize at the 16th annual federal competition of annual reports and websites, held by the Securities Market magazine and social network INVESTOR.RU in partnership with the CBR's Financial Markets Service
- Winner at the "CNews Forum 2013: Information Technologies Tomorrow" in the category "Cybersecurity in the Energy Sector" for building a company-wide cybersecurity system
- The Company's IR practice was acknowledged to be among the three best practices of mid-capitalisation companies in the categories "Best Investor Relations by a CEO" and "Best Investor Relations by a CFO" of IR magazine (Russia & CIS)

STRATEGIC OVERVIEW

Our strategic goal is to set out on the turnpike (power line) for development, where we can ensure the maximum rate of sustainable technological growth of the Unified National Electric Grid and contribute to the development of the Russian economy

Company Profile

Federal Grid Company has a unique infrastructure that ensures a reliable and uninterrupted electric power transmission via backbone electric grids throughout the Russian Federation.

- Federal Grid was established in 2002, in accordance with Russia's electric power industry reform , as the management organisation of the Unified National (All-Russia) Electric Grid ("UNEG") for the purpose of its maintenance and development.
- UNEG includes a network of transmission lines that cover most of Russia.
- The Company's electric grid facilities (transmission lines and substations) are located in 75 Russian regions covering a total area of more than 14.8 million square kilometres.
- Federal Grid Company is the largest publicly traded grid company in the world in terms of the length of its transmission lines (135.1 kilometres) and transformer capacity (332.01 MVA).
- The Company's key activity is the electricity transmission via transmission grids. Over a half of all power consumption in Russia is of electric power transmitted via the Company's grids
- Federal Grid Company is a natural monopoly in the area of electricity transmission. It is included in a list of systemically important organisations of strategic importance to Russia.
- The largest share of the Company's revenue is generated from RAB-based tariffs for electricity transmission, as approved by the Federal Tariff Service (the 'FTS').
- In terms of organisational structure, Federal Grid Company consists of an Executive Office and 51 branches with more than 23,000 employees in total.
- Federal Grid is a public company; its securities are traded on Russian and foreign stock markets, including the Moscow Stock Exchange and the London Stock Exchange.
- The Company's major shareholder that owns 80.6% of its common stock is the state-owned company Russian Grids (Rosseti).

The Company's Key Activities

Management of the Unified National Electric Grid (UNEG)

Electricity transmission and technological connection services to the WECM members

Investment in the development of UNEG

Maintenance of the UNEG facilities in appropriate condition and providing technical supervision

What is UNEG?

UNEG, or the Unified National (all-Russian) Electric Grid, is a network of electric power grids and other electric grid facilities that provides a sustainable supply of electric power to customers and ensures the proper functioning of the wholesale market and the parallel operation of power systems in Russia and other countries.

What is WECM?

WECM, or the Wholesale Electricity and Capacity Market, is a market for trading very specific goods, i.e. electric power and capacity, within the Unified Energy System and on the economic territory of the Russian Federation, with the participation of large producers and buyers of electricity and capacity, as well as other entities that have the status of a wholesale market member.

Key Milestones in the Company's History

2002

- State registration of Federal Grid Company took place. The Company began providing electricity transmission and technological connection services to customers

2003

- The Company was included in the register of natural monopolies and a list of commercial organisations that are the WECM members

2004

- Inter-regional backbone electric grid companies (MMSKs) were established

2005

- Forty-four backbone electric grid companies (MSKs) were established on the basis of JSC-Energo and forty-six regional grid companies.
- A decision was made to place inter-regional distribution grid companies' shares in trust of Federal Grid Company

2006

- The UNEG consolidation process was completed and Regulation on the Technical Policy of Federal Grid Company was approved for the first time

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

- The Company was listed on the RTS and MICEX Stock Exchanges, and trading started. A global depositary depository receipts (GDR) programme for the Company was launched
- The final stage of consolidation: shares of taken-over MSKs, JSC RAO UES of Russia, JSC State Holding and JSC Minority Holding FGC UES were converted into shares of Federal Grid Company

2009

- The Federal Tariff Service approved the parameters of the Company's transition to RAB-regulation for 2010–2012
- The Company's shares were included in the MSCI Russia and MSCI Emerging Markets stock indices

2010

- The Company received the Energy Company of the Year award for rapidly introducing a successful, innovations-based modernisation of the national electric grid complex.
- The FTS approved RAB-based tariffs for Federal Grid Company for 2011-2014

2011

- The Company adopted a new Technical Policy and an Innovative Development Programme that outlined the fundamental areas of WECM development in the long term.
- The Company's GDRs were listed and their trading started on the London Stock Exchange's main market.

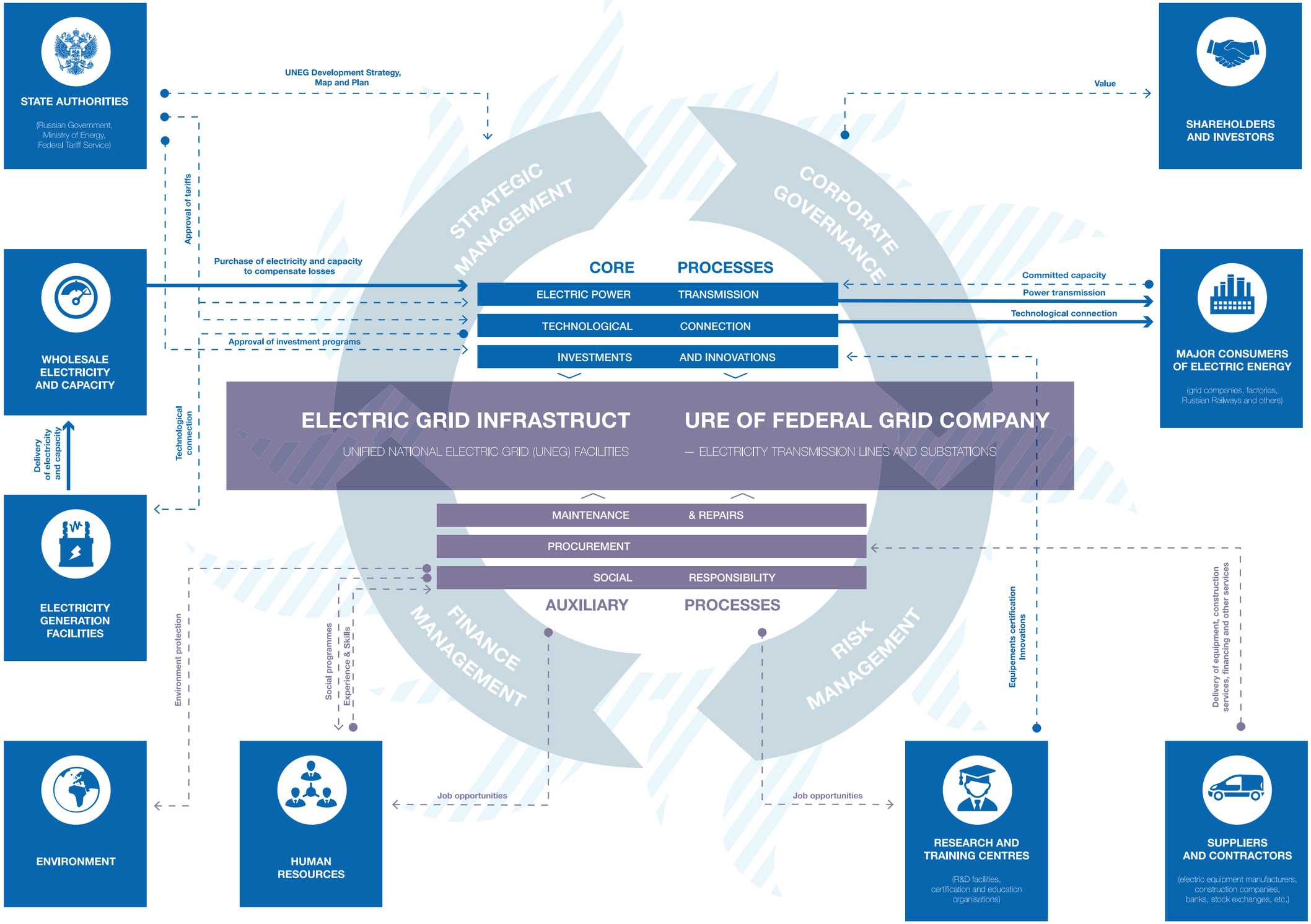
2012

- Federal Grid Company was appointed as a sole executive body of JSC IDGC Holding.
- The Russian Ministry of Energy approved the Company's investment programme for 2013–2017 for RUB775.5 billion.
- Joint-stock company Russian Grids (Rosseti) was established by the decree of the President of the Russian Federation. The State's share in Federal Grid Company (79.55%) was vested in the share capital of Russian Grids.
- The Company placed its debut issue of Eurobonds.

2013

- The Russian Government approved the Development Strategy of the Russian Electric Grid Complex until 2030
- Regulation on the Unified Technical Policy in the Electric Grid Complex of the Russian Federation was approved as the Company's internal document
- State-owned company Russian Grids became Federal Grid Company's majority shareholder, owning 80.6% of its common stock

Business Model



Geography

The Company operates in 75 Russian regions covering an area of more than 14.8 million square kilometres. The territory in which the Company's facilities are located is divided into zones of responsibility for corporate branches, known as backbone grid companies, and their local enterprises (or MES and PMES). Underpopulated territories with no large customers – such as Chukotka, Kamchatka, Magadan oblast and Sakhalin – are not integrated into UNEG because they do not have economic conditions necessary for laying electricity transmission lines and establishing large substations.

TRANSMISSION LINES 35-750 KV (PTL)

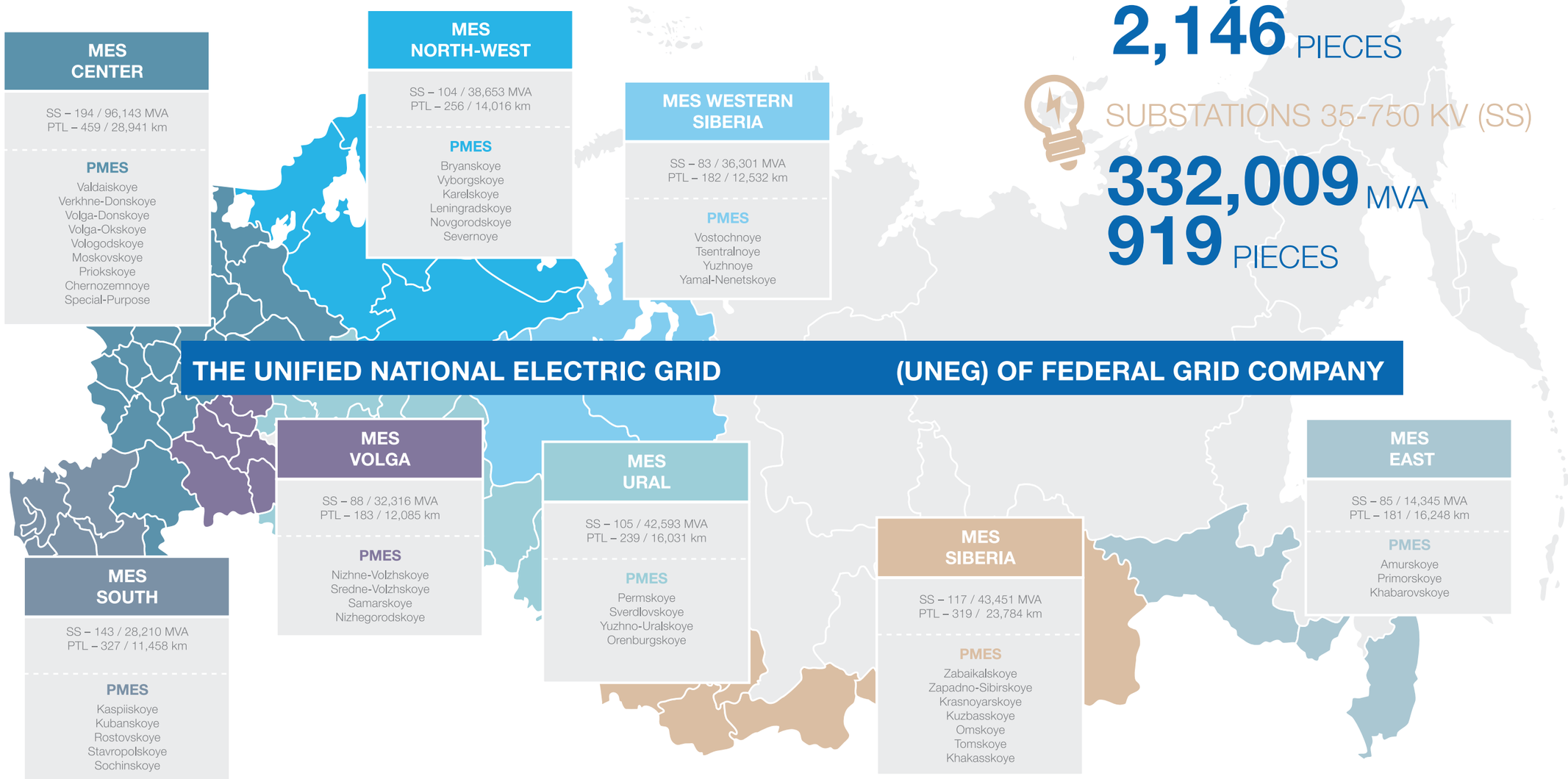
135,096 KM

2,146 PIECES

SUBSTATIONS 35-750 KV (SS)

332,009 MVA

919 PIECES



REGIONAL BRANCHES OF FEDERAL GRID COMPANY **51**

BACKBONE ELECTRIC GRIDS (MES) **8**

BACKBONE ELECTRIC GRID ENTERPRISES (PMES) **41**

TECHNICAL SUPERVISION CENTRE **1**

SPECIAL PURPOSE PRODUCTION CENTRE "BELY RAST" **1**

Subsidiaries and Associates

As of 31 December 2013, Federal Grid Company had 21 subsidiaries and associates that operate in different industries, including those that support electric grid facilities (core subsidiaries and associates). Two subsidiaries and associates (JSC Tomsk Trunk Grids and JSC Kuban Trunk Grids) are backbone grid companies.

Core companies in which Federal Grid Company has equity shares

JSC Mobile Gas-Turbin Power Plant	100%	JSC ESSK EES	100%	JSC Tomsk Trunk Grids	52.025%
JSC MUS Energetiki	100%	JSC Elektrosetservis UNEG	100%	AO OES GruzRosenergo	50%
JSC R&D Centre of FGC UES	100%	Index Energetiki – FGC UES LLC	100%	JSC Kuban Trunk Grids	48.999%
JSC CIUS EES	100%	JSC DESP	1 share*	JSC Inter RAO	14.0749%

** the remaining shares are owned by JSC R&D Centre of FGC UES*

For further details on the management of subsidiaries and associates see section **Corporate Governance / Control System / Managing subsidiaries and associates** of the Report (p. 161)

Detailed information about Federal Grid Company's holdings in subsidiaries, associates and other organisations can be found in **Appendix to the Annual Report on the memory stick attached**

International Operations

Federal Grid Company facilitates the transit of electric power over Russia's customs border and operates as a technical contactor under commercial contracts of importers and exporters on the WECM.

Pursuant to contracts with JSC Inter-RAO UES and JSC TGC-1, our Company provides services on electricity transmission throughout Russia and right up to its borders via electric grid facilities that are integrated into UNEG and legally owned by the Company.

Cross-border Electricity Transmission Lines

Electricity transmission lines that cross the state border of the Russian Federation meet the criteria of treating electric grid facilities as UNEG facilities as per Resolution No. 41 of the Government of the Russian Federation dated 26 January 2006.

Federal Grid Company collects and processes information about electricity transmission along 140 cross-border electricity transmission lines based on data supplied by commercial metering devices.

To supply electricity to Russian customers in Bryansk, Pskov and Kaliningrad oblasts, the Company entered into contracts with the relevant organisations of Latvia, Lithuania, Estonia and the Republic of Belarus to paid electricity transit services through the electric grids of these countries.

Pursuant to an agreement dated 20 November 2009 and signed by the governments of the Russian Federation and the Republic of Kazakhstan about measures to ensure the parallel operation of the unified energy systems of Kazakhstan and Russia, the Company entered into a contract for the transit of electricity. As of May 2010, under this contract, Federal Grid has paid for the transit of electricity through the territory of Kazakhstan to supply electricity to its Russian customers.

According to an agreement by and between the governments of the Russian Federation, the Republic of Kazakhstan and the Republic of Belarus about access to the services of natural monopolies in the electricity industry, including basic principles of pricing and tariff policy, it has become possible since 2012 to transmit electricity across the member states of the Common Economic Space , including transmission via the Russian UES grids. The Common Economic Space is a supra-national regional economic community of the three Customs Union states - Belarus, Kazakhstan and Russia.

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CROSS-BORDER ELECTRICITY TRANSMISSION LINES AS PART OF UNEG

Work of Russia's Unified Energy System in parallel with electric power systems of the other countries

There are currently several agreements in force, stipulating parallel operation of the Russian UES with the electric power systems of foreign states. The parties to these agreements are Federal Grid Company and economic entities of Georgia, Kazakhstan, the Baltic countries and the Republic of Belarus. The Company also signed an Inter-system Agreement with Finland. It also signed agreements on technical support of parallel operations with Ukraine, the Republic of Belarus, Azerbaijan and Mongolia.

Being a management organisation of UNEG and cross-border electricity transmission lines of all voltage classes, Federal Grid Company:

- coordinates commercial contracts for the import/export of electricity and provides their engineering support
- arranges and implements commercial metering of electricity transmitted along cross-border electricity transmission lines
- measures actual volumes of electricity that has been transmitted across the State border, and arranges for their customs clearance (declaration).

In order to measure the volume of electricity transmitted trough each cross-border transmission line, Federal Grid Company and foreign counterparts signed agreements

Thanks to the equipping of the 400 kV Vyborgskaya SS in Leningrad Oblast with the DC link, a technical capability has been gained in 2013 to import electricity from Finland to Russia.

concerning the metering of cross flows via a particular cross-border transmission line. Under these agreements, the Company and electric power systems of 11 countries exchange commercial metering data.

The agreement between the Russian Federation and the Republic of Kazakhstan regarding the parallel operations of Russian and Kazakhstan UES includes an understanding between Federal Grid Company and JSC KEGOC concerning commercial contracts for the settlement of deviations from the agreed schedule of flow balances based on hourly data provided by commercial metering. Similar agreements with Ukraine and Belarus were drafted and approved in 2013.

International Cooperation

Federal Grid Company continually modifies and improves its systems in relation to those of foreign power systems on issues pertaining to the harmonisation of legislation / regulations within the global electricity industry, as well as to form and synchronise the electricity and capacity markets in accordance with intergovernmental initiatives. This work is done with:

- CIS Electric Power Council (CIS EPC) and its commissions, including the Commission for Operating and Engineering Coordination of Collective Operation of CIS and Baltics Energy Systems (COTC)
- task forces including Fingrid (Finland), KEGOC (Kazakhstan) and Belenergo (Belarus)
- BRELL Power Systems Committee (its members are Belarus, Russia, Estonia, Latvia and Lithuania)
- Integration Committee of Eurasian Economic Community (EurAsEC)
- Russia-EU Energy Dialogue

Market Overview

Federal Grid Company is the infrastructural lynchpin of the Russian electricity market. In terms of industry classification, managing the electric grid complex is a separate electricity industry segment in which the Company has a monopoly. As a natural monopoly, the Company is subject to government regulation. This is why it is Federal Grid Company and its performance that drive the development of the Russian electric grid complex.

Today, a moderate increase (up to 2% per year) of electricity demand is what drives the development of the power industry in Russia and determines the further development of electric grid complex.

The Russian Ministry of Energy estimates that the total demand for electricity across the Russian UES will reach about 1,153.6 billion KWh by the end of 2019, which is 137.1 billion kWh above the 2012 level. It is estimated that consumption in 2019 will exceed 2012 levels by 13.5%, with an average annual growth of 1.82%. The planned expansion and renovation of operating facilities and the expected commissioning of new facilities at large manufacturing plants are expected to increase power consumption across the Russian UES in 2014–2017. However, it is expected that this demand will decrease after 2017 following the anticipated technological modernisation of industrial facilities, particularly energy-intensive metallurgical facilities, and the increased development and use of energy-saving technologies.

These growth rates are explained by the gradual improvement of energy efficiency. In the coming 10–15 years, Russia will implement technologies that are being used in the electric grids of the developed countries. In particular, Russia will install smart grid technologies that will help to increase the transfer capacity and stability of power supply, and reduce losses and costs associated with the technical and commercial metering of customer facilities.

The continued development of the national energy sector is based on the scenario of innovation-based economic development. According to the Energy Strategy of Russia until 2030, as approved by the Russian Government, the national economy's dependence on the energy sector is expected to weaken following priority being given to the development of innovative energy-saving sectors and the implementation of energy-saving technologies. As a result, the fuel and energy complex's share of gross domestic product will almost halve by 2030 (compared with 2005).

At the same time, the energy sector will maintain its key role in making fundamental strategic decisions pertaining to national development. This is particularly true of the construction of a new power infrastructure that will accelerate the social and economic development of Eastern Siberia and the Russian Far East, help to overcome infrastructural imbalances between regions and form new territorial and production clusters based on energy-generating and -processing facilities.

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

INCREASE IN ELECTRICITY DEMAND IN RUSSIA

UP TO 2% PER YEAR

The medium-term development of the Russian electric energy sector will be driven by:

- the electricity industry's pricing pressure on the national economy being transformed into intensified competition for tariff revenues among all participants in the process of electricity production, distribution and sale;
- unequal electricity consumption across Russia because of the major differences between various regions in terms of capacity and current development of industrial and economic growth;
- customers pressing for more reliable and better-quality energy supply on the back of rising prices for electricity in general;

- improvement of competition on the wholesale electricity market as a result of commissioning new sophisticated generating capacities under regulated contracts for capacity supply;

- increase in demand for technological connection as procedures for it are simplified and its costs lowered under the Government's Technological Connection Road Map.

Government Regulation in the Electric Power Industry

The Russian Government implements its mandate in government regulation and control of the electric power industry in compliance with Federal Law "On Electric Power Industry" No. 35-FZ dated 26 March 2003.

The following federal executive authorities have mandates for government regulation of the electric power industry:

- The Russian Ministry of Energy, which formulates government policy and regulates the national fuel and energy system, including the electric power industry.

The Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor), which exercises control and oversight in the electric power industry, issues licences for certain activities and inspects compliance with the Russian laws on electricity.

Federal Grid Company at WECM

Since 1 January 2006, Federal Grid Company, on its own, has been purchasing electricity on the WECM to compensate for actual UNEG losses net of losses that have been measured and paid for in equilibrium prices by the WECM participants. In these operations Federal Grid is guided by the following laws and regulations:

- Federal Law "On Electric Power Industry" No. 35-FZ dated 26 March 2003

- Rules on Non-Discriminatory Access to Electricity Transmission Services and Delivery of These Services approved by Resolution of the Russian Government No. 861 dated 27 December 2004

- Rules on the Wholesale Electricity and Capacity Market approved by Resolution of the Russian Government No. 1172 dated 27 December 2010

- Contract for Connection to the Wholesale Market Trading System and Wholesale Market Procedures (these are appendices to the Contract for Connection to the Wholesale Market Trading System).

Federal Grid purchases electricity and capacity on the wholesale market in member regions of the Russian Federation that are pooled into pricing and non-pricing zones. These purchases are made to compensate for UNEG losses.

Since 1 January 2011, Federal Grid has been purchasing electricity and capacity at free (non-regulated) prices in accordance with the wholesale market's rules. Purchases of electricity and capacity on the wholesale market for compensation of losses in the non-pricing zones are made under quadripartite contracts by and between JSC FGC UES, JSC ATS, JSC CFR and the seller of electricity and capacity.

The price of electricity and capacity that Federal Grid purchased to compensate for the 2013 losses amounted to RUB12.29 billion net of VAT, including RUB5.30 billion (net of VAT) for electricity and RUB6.99 billion (net of VAT) for capacity.

Development Strategy

3,690 kM
COMMISSIONING OF ELECTRICITY TRANSMISSION LINES

Development of grid infrastructure	2013 TARGET	2013 ACTUAL	2014 TARGET
Commissioning of electricity transmission lines, km	3,235	3,690	4,291
Commissioning of new capacities, MVA*	14,586	10,793	9,985

Areas and benchmarks of the Company's strategic development are based on Russia's Electric Grid Complex Strategy until 2030 which was approved by the Russian Government in 2013.

The main goal of Russia's electric grid complex is to offer a reliable, high-quality and accessible energy supply for customers in the Russian Federation in the long term by establishing the most efficient grid infrastructure possible that conforms to global standards. This supply should also offer affordable electricity prices to consumers, based on sensible power transmission tariffs, and be an attractive investment opportunity (by offering an adequate rate of return on capital) in the industry.

The Company's Mission

Reliable operation and development of the Unified National Electric Grid with a view to supporting economic growth in Russia and providing an uninterrupted electricity supply to customers in all regions of the Russian Federation.

Federal Grid's strategic priorities as a transmission grid company are to support and develop an electric grid infrastructure that would ensure the delivery of capacity to stations and electricity transmission to the distribution grids, and to ensure the country's energy integrity and security.

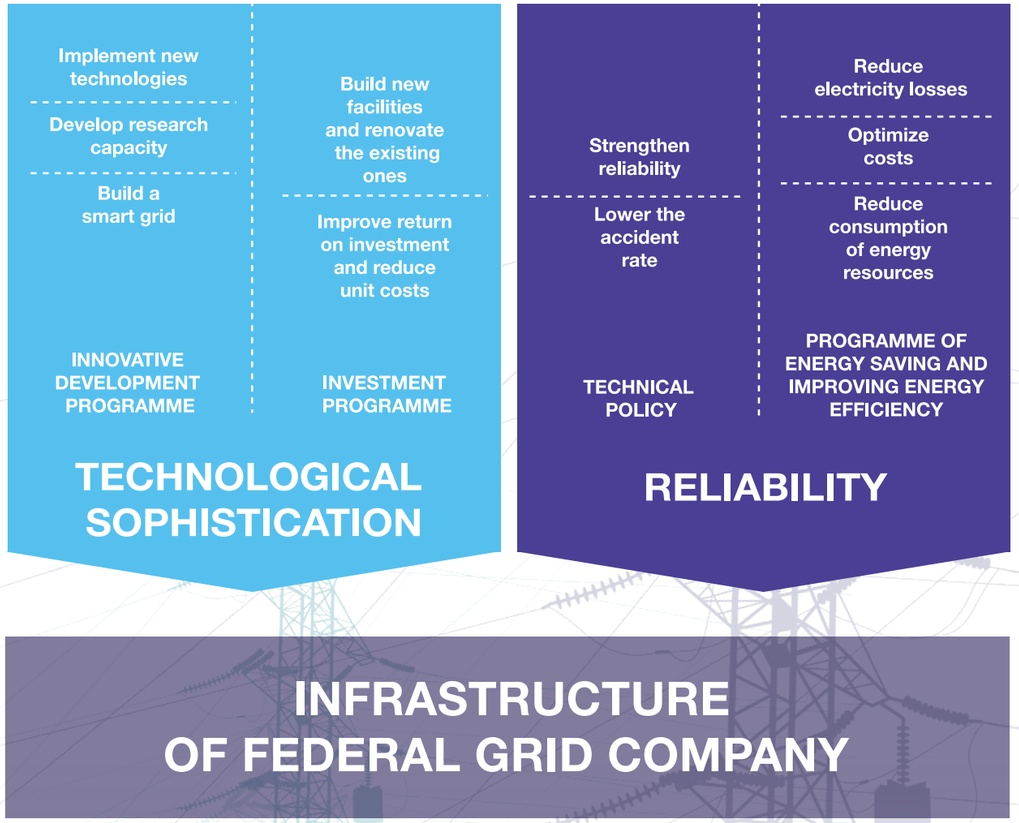
The Company's Strategic Objectives

- To ensure a reliable power supply to customers.
- To ensure a quality service for customers.
- To develop infrastructure to support economic growth in Russia.
- To maintain a competitive level of electricity tariffs for the development of the industrial sector.
- To develop capacity for research and innovations.
- To ensure a rate of return on invested capital that is attractive to investors.

Drafting and subsequently implementing appropriate functional policies and development programmes are crucial corporate elements for achieving strategic objectives.

** The analysis of actual commissioning figures should take into account the capacity that has been commissioned ahead of schedule (before 2013) at the facilities included in the 2013 plan, and the capacity that was postponed for commissioning because of circumstances beyond the Company's control. Therefore, while calculating the completion rate, figures included in the 2013 plan should be adjusted by the volume of capacity that had been commissioned earlier and postponed.*

Commissioning plan – 2013	*14,586 MVA*
Commissioned before 01.01.2013	*2,627 MVA*
Postponed for 2014	*365 MVA*
Adjusted plan for 2013	*11,594 MVA*
Actual 2013 data	*10,793 MVA*
% of completion, including pre-schedule and postponed commissions	*93%*



Strategic Priorities – 2017 Targets

1. To reduce inflation-adjusted operating costs per unit of maintained electric grid equipment by 15% against the 2012 level adjusted for inflation.
2. To improve investment efficiency on average by 30% against the 2012 level per one physical unit (kilometre and/or MVA).
3. To achieve a sustainable growth of market share in the segment of electricity transmission services in the "commingled" revenues received from the regional electricity consumers.
4. To achieve capitalisation growth over five years after the implementation of measures to stabilise the regulation regime at the level of at least 60–80% of invested capital.
5. To achieve a sustainable improvement of reliability and quality of services to an economically sound level.

Development Prospects

The Company's development prospects are set in the Scheme and Russian UES Development Programme for the next seven years, a projection that is revised annually by the Federal Grid Company and UES System Operator, JSC SO UES, and approved by the Russian Government. The main goal of this document is to promote the development of grid infrastructure and generating capacities and to meet medium- and long-term demand for electricity and capacity. The Scheme and UES Development Programme is used as the basis for the Company's investment programme.

IN 2013-2019, IT IS PLANNED TO COMMISSION MORE THAN **40,000 KM** OF TRANSMISSION LINES AND MORE THAN **137,000 MVA** OF CAPACITY

The Scheme and UES Development Programme for 2013–2019 was drafted in 2013. Under this programme, the Company is to commission 40,607 kilometres of transmission lines (voltage class 220 kV and above) and substations with a total capacity of 137,736 MVA.

2013–2019 Plan of Commissioning Transmission Lines and 220 kV and Higher Capacities (Net of figures of the automatic transformers replacement programme)

	2013-2019		2013	
	Km	MVA	Km	MVA
MES North-West	3,103	7,686	98	896
MES Centre	2,294	22,502	136	4,694
MES South	2,213	7,593	501	2,197
MES Volga	1,429	6,979	296	1,751
MES Ural	1,766	6,011	339	450
MES Siberia	5,976	13,292	555	2,416
MES Western Siberia	2,128	6,538	543	1,502
MES East	3,768	3,704	768	480

Long-Term Infrastructure Projects

Project	Objectives	Financing
Development of backbone electric grids	Strengthen inter-system transits in order to increase reliability of electricity supply to customers Provide additional capacity for technological connection of new customers Create the capacity for optimal load of heat plants and hydro stations in order to reduce the cost of electricity for end customers	190 investment projects Total cost: RUB660.361 billion Funding in 2014: RUB38.033 billion
Development of OSC RZD's Eastern tracks, i.e. BAM and Transsib	Ensure technological connection of an additional load from JSC RZD on the Eastern railway tracks Improve reliability of electricity supply to existing customers Ensure on-schedule or emergency repairs without limits on load Normalise voltage levels	25 investment projects Total cost: RUB179.361 billion Funding in 2014: RUB1.216 billion
Compensatory actions	Ensure reliable operations of UES North-West in cases where parallel operations of UES of Russian and the Baltics UES grid systems are interrupted	11 investment projects Total cost: RUB42.714 billion Funding in 2014: RUB1.115 billion
Electricity supply to new power facilities in the Taman Peninsula	Provide electricity supply to the existing and projected seaport facilities in the Taman Peninsula	4 investment projects Total cost: RUB9.003 billion Funding in 2014: RUB0.231 billion
Infrastructure for the 2018 FIFA World Cup in Russia	Provide reliable electricity supply to the sports facilities of the 2018 FIFA World Cup and supporting infrastructure facilities Commission 5,165 MVA of transformer capacity and 129.8 km of transmission lines	16 investment projects Total cost: RUB35.017 billion Funding in 2014: RUB3.944 billion

Strategy in the Context of Sustainable Development

Traditionally, sustainable development is based on the ambition to meet the needs of the existing generation without threatening the needs of future generations. This can only be done if all stakeholders' positions are taken into account, with continuous communication with these stakeholders and integration of these practices in all of the Company's business processes.

Owing to its specific role in the energy sector, economy and social development, Federal Grid expands and complements the traditional concept of sustainability in its operations.

As a monopoly operator of UNEG, we transmit electricity via backbone electric grids and are responsible for providing a reliable power supply for consumers across the Russian Federation.

Our Company is mandated to develop the electric grid infrastructure in Russia and outstripping growth rates in order to meet the increasing demand of the public and national economy in the future. This is our strategic goal, i.e. to set out on the turnpike (power line) for development.

The Company's responsibility for the efficient administration and development of UNEG is not only to ensure a safe, reliable and uninterrupted electricity supply but also to provide non-discriminatory access to its grid services that should be provided in a transparent, honest (corruption-free) and innovations-based manner. This is why one of the Company's most important tasks in terms of philosophy and values of corporate social responsibility and sustainable development is to continuously seek the balance between public and economic interests in our work.

Federal Grid Company, as one of the largest electric power companies in Russia, is responsible for the condition of UNEG, the lynchpin of the national grid system and a vital public infrastructure. Having assessed existing problems and prospective threats, the Company developed and began implementing a package of programmes and policies aimed at the renovation, modernisation and innovative development of UNEG. These are long-term programmes and policies, and their success largely depends on constructive cooperation between the Company and a broad range of stakeholders. These include suppliers, contractors, project and R&D think tanks, distribution electric grid companies, IDGCs, customers, generators, infrastructure regulators, labour unions, government authorities, public and environmental organisations and the expert community.

Strategic Priorities of Federal Grid's Sustainable Development

- To build mechanisms and practices for the synchronisation of stakeholder plans that envisage the development and expansion of UNEG.
- To achieve import substitution for the purposes of the innovative development of the national energy sector.
- To form a pool of human resources (HR) for the smart energy sector.
- To develop responsible HR management practices.
- To improve labour protection and industrial safety.
- To strengthen environmental protection and improve the energy efficiency of grid operations.
- To ensure a fair distribution of economic value and assess the economic expediency of implementing innovations and new technologies.
- To integrate Corporate Social Responsibility (CSR) strategy in internal business processes.

PERFORMANCE RESULTS

We are building a reliable high-tech energy infrastructure – the power line backbone to support sustainable growth and modernisation of the national economy

Operating performance overview

	2013 TARGET	2013 ACTUAL	2014 TARGET
Consumers of electricity transmission services	283	292	470
Electricity losses in UNEG, %	4.48*	4.28	4.47*
Major accidents	0	0	0
Relative restrictions on the electricity transmission service, %w	0.0028	0.0006	0.0027
Reduction of procurement costs per unit of goods (works, services) by at least 10% a year over three years, in real terms	10	10.25	10

* *regulatory standard of process losses*

+ 2,852 mln kWh
+ RUB16,1 bn

INCREASE IN THE VOLUME OF ELECTRICITY TRANSMISSION SERVICES IN 2013

Electricity transmission

The core activity and main revenue source for Federal Grid Company is the electricity transmission through the Unified National Electric Grid ('UNEG').

In accordance with Russian laws, Federal Grid's services of electricity transmission via UNEG are monopoly operations regulated by the State.

The cost of electricity transmission services is based on tariffs that are set by the Russian Federal Tariff Service (the 'FTS') and includes:

- the cost of electricity transmission for the maintenance of UNEG grid facilities that are part of UNEG;
- the cost of regulatory process losses of electricity in UNEG in the Russian regions.

In 2013, the volume of electricity transmission services by Federal Grid Company amounted to 519,983 million kWh, up by 0.55% from 2012.

Federal Grid's Key Operating Results in 2013

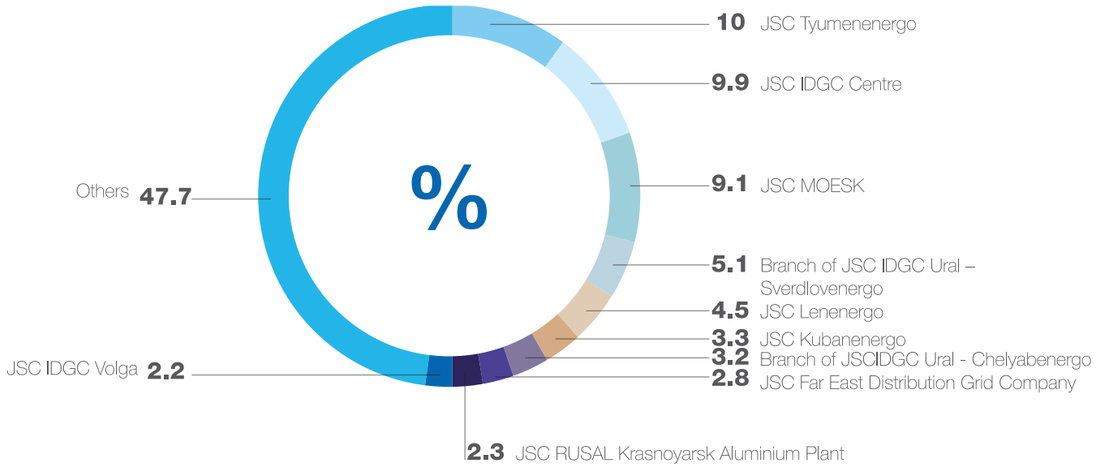
Federal Grid's branches	Sales from the grid network to customers and related territorial network organisations within balance sheet and operational attribution, mln kWh	Losses	
		mln kWh	%
MES Centre	123,366	5,054	4.10%
MES North-West	60,764	3,119	5.13%
MES Volga	42,278	2,118	5.01%
MES South	44,765	1,740	3.89%
MES Ural	76,027	2,825	3.72%
MES Western Siberia	66,110	3,082	4.66%
MES Siberia	88,329	3,075	3.48%
MES East	18,344	1,248	6.80%
Total	**519,983**	**22,262**	**4.28%**

Changes in the Volume of Electricity Transmission Services provided by Federal Grid, 2012--2013

	2012	2013	Change 2013/2012	
mln kWh	517,131	519,983	+ 2,852	0.55%
RUB mln	136,581	152,709	+ 16,128	11.8%

The Company enters into direct contracts with customers in all Russian regions where it has grid facilities. The number of counterparties has been increasing steadily as a result of new technological connections to UNEG and phased discontinuation of the “last mile” principle.*

Share of Federal Grid’s Largest Customers in Terms of Revenues from Electricity Transmission Services, 2013

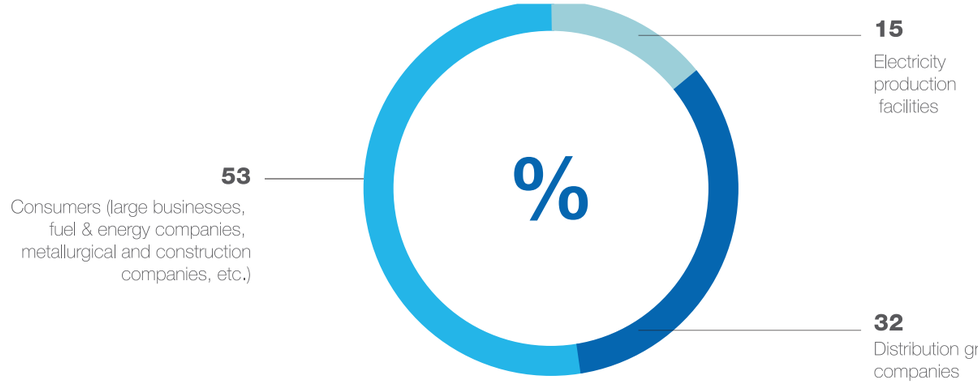


** The “last mile” principle is a form of cross-subsidization where large industrial customers that are connected directly to Federal Grid Company’s transmission grids cover an additional tariff for distribution grids of IDGCs to which some of the Company’s capacity (the “last mile”) are let*

Technological Connection

Technological connection is a service package which our Company offers to connect electricity consumers’ power receivers, electricity producing facilities and grid facilities to Federal Grid’s electric grids. We provide technological connection services to new and existing customers if the latter need to change the operating parameters of their power facilities.

Technological Connections, by Customers



In 2013, Federal Grid entered into 652* contracts for technological connection, up by 63% from 2012. The total maximum capacity was 2.3 GW for technological connection of consumers and distribution grid companies in the reporting year, and 1.4 GW for electricity production facilities.

Federal Grid’s Major Technological Connection Projects in 2013 and Capacity Consumption, MW

Abinsk Electromechanical Plant, Krasnodar Territory	200	Gazprom Neft Omsk Oil Processing Plant, Omsk oblast	32
Plant of Ural Mining and Metallurgical Company, Tyumen oblast	120	Oil pumping stations, Krasnodar Territory	28
Taganrog Metallurgical Works, Rostov oblast	107	Angara rocket base, Arkhangelsk oblast	14
Mikheevsky Mining & Processing Plant, Chelyabinsk oblast	40	Chemical weapons destruction facility, Udmurt Republic	6
Eurocement Group plant, Voronezh oblast	37		

** The number of contracts with direct consumers, regional grid companies and electricity production facilities.*

Our customer-oriented approach is aimed at improving the transparency and accessibility of technological connection to the Federal Grid's electric grids. We implement the action plan "Better Accessibility of Power Infrastructure" that was approved by the Russian Government and requires shorter periods and stages of technological connection. Our objective is to synchronise the development of industry across the country with the potential of the backbone electric grid complex.

Our customers have interactive access to the **Technological Connection** Portal at **www.fsk-ees.ru**, which provides full and up-to-date information about technological connection to customers. The launching of this portal was a step towards better communication with the regional authorities on issues pertaining to the increase of grid capacity and the avoidance of risks related to excessive investments.

The Methodological Guidelines on the Estimation of Reliability and Quality of Supplied Goods and Services for the Organisation that Manages the Unified National (all-Russia) Electric Grid and Territorial Grid Organisations were approved by the Order of the Russian Ministry of Energy No. 296 dated 29 June 2010.

The list of indicators includes those that measure the reliability of electricity transmission and characterise the emergence of process violations and their implications for customers; and those that measure the quality of customer service and characterise, in the first place, the capacity for technological connection.

Service Reliability and Quality Indicators Set by FTS Plan for 2011–2014 and Achieved by Federal Grid in 2013

	2011	2012	2013	Federal Grid 2013	2014
Service reliability level	0.0490	0.0483	0.0475	0.0199 *	0.0468
Service quality level	1.2599	1.2410	1.2224	1.1088	1.2040

** Performance over and above the target is downside deviation of the actual length of electricity outages from the planned value (in 2013) owing to the efficient operation of UNEG and the reduced time for dealing with process disturbances.*

15%

ANNUAL REDUCTION IN SPECIFIC ACCIDENT RATE OVER THE PAST THREE YEARS

Federal Grid Company met the FTS's service reliability and quality targets in 2013.

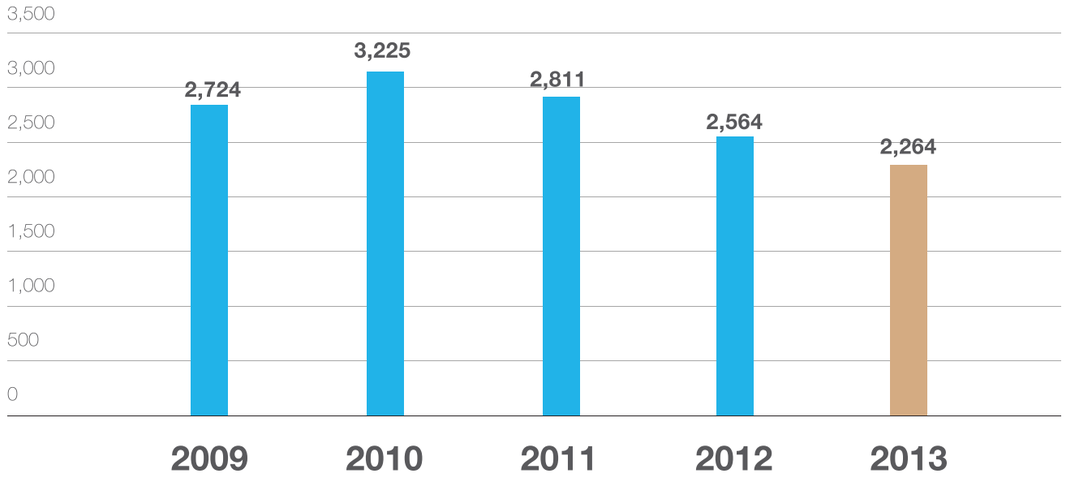
The FTS will set service quality targets for technological connection for the next period of regulation (2015–2019) when making decisions about tariffs for that period.

Improving Reliability

Federal Grid Company's enhanced level of responsibility in providing reliable and stable electricity supply in Russia is related to specific features and the diversity of climates across the country. We are fully aware of the great responsibility that is imposed on us, and will do our best to deliver electricity to our customers in a stable and uninterrupted manner and in compliance with all technical specifications.

In 2013, we continued to take regular efforts to reduce the accident rate and have achieved visible results in this area.

Number of Accidents at Federal Grid's Facilities in 2009–2013

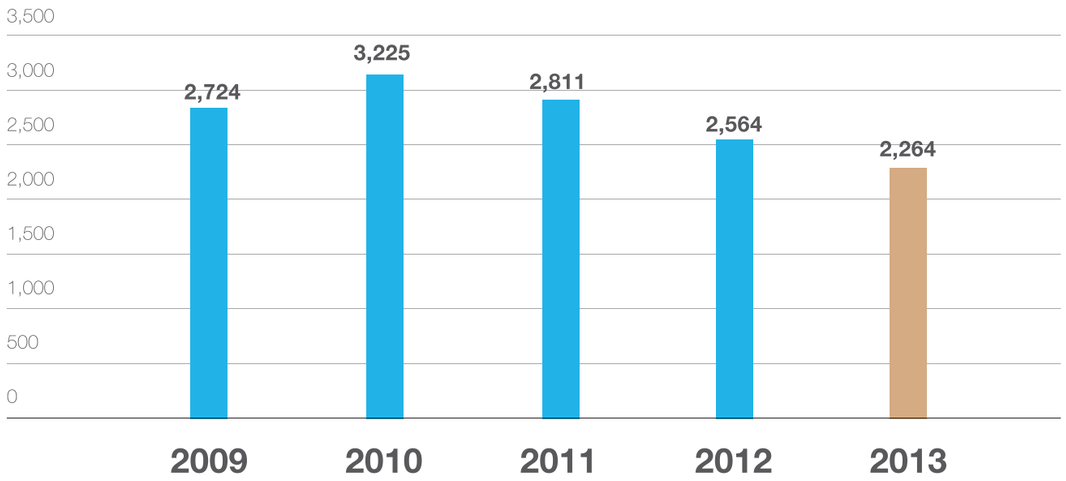


The accident rate at Federal Grid's facilities went down by 11.7% in 2013, although the maintenance workload (number of electric facilities) has been increasing.

Actions taken by the Company have resulted in reducing per-unit accident rates (number of accidents to the maintenance workload ratio) over the past three years, on average, by 15% a year. Accident rate has been reduced because of the following actions:

- Implementation of maintenance and repair plans and target programmes.
- Implementation of equipment renovation programmes.
- Implementation of a package of measures to ensure the top-level preparedness for emergency situations.
- Personnel professional development.

Accident Rate at Federal Grid's Facilities in 2009–2013
(number of accidents per 1,000 units in maintenance)



Technical Policy

In 2013, the Federal Grid's Board of Directors implemented the Regulations on the Unified Technical Policy in the Power Grid Complex (that had been earlier approved by the Board of Directors of JSC Russian Grids) as an internal document.

The Unified Technical Policy is the key instrument for optimising and reducing the full costs of ownership of the electric grid complex facilities with a sound level of UNEG's reliability. Its aim is to identify the key technical areas that enhance the electric grid complex's reliability and efficiency in the short and medium terms with an appropriate industrial and environmental safety based on innovative principles that provide non-discriminatory access to electric grids for all market participants.

Implementation of the Unified Technical Policy will help us to improve the electric grid complex's efficiency, reduce its operational costs, strengthen the system-wide reliability of UNEG and meet the increasing demand for electricity.

Fixed Assets Renovation Programme

The Fixed Assets Renovation Programme is aimed at ensuring the reliable and efficient functioning of the electric grid complex. It was included in the Company's Investment Programme for 2015–2019 as an investment programme for 2014.

The draft Renovation Programme stipulates the commissioning of facilities with a total capacity of 22,739 MVA and reconstruction of 2,739 km of transmission lines.

The total funding for the Programme in 2014–2019 will amount to RUB185.9 billion. RUB27.4 billion will be spent on renovation in 2014. The total capacity to be commissioned at the fully renovated facilities will amount to 1,841 MVA and 136.8 km.

In 2013, the total commissioned capacity was 564 MVA at the fully renovated facilities and 362 MVA at reactive power facilities.

In order to improve UNEG's reliability, the Company energised 70 key partially reconstructed facilities in the reporting

year, which is 3.5 times above the 2012 level.

Repairs

The main goal of Federal Grid's repair programme is to ensure the reliability of UNEG operations.

The 2013 maintenance and repair plan was fully implemented. The Company completed the following work at its grid facilities:

- We cleared 50,254 hectares of high-voltage electricity transmission line paths.
- We cut down 76,111 trees that threatened to fall on overhead lines.
- We replaced 104,889 insulators, 1,674 km of ground wires, 5,264 distance pieces, 293 inputs, 989 support bar insulators, replaced and strengthened 2,144 bus supports.
- We replaced, repaired and strengthened 11,017 footings, repaired 320 phases of autotransformers / transformers, 39 phases of shunt reactors, 2,157 on-/off switches, 12,279 phases of disconnecters and 152 compressors.

Moreover, in the reporting year the Company implemented the following targeted repair programmes that helped to reduce the number of accidents caused by damaged inputs and mast and rod insulation:

- Replacement of 409 high voltage inputs with T-750 oil at substations.
- Improvement of reliability of 27,853 mast and rod insulators at substations.
- Replacement of 175,746 overaged porcelain insulators on overhead transmission lines.

Operations in Special Periods

Weather and climatic conditions make a strong impact on the Company's operations, so we prepare electric grid equipment and facilities in advance for operation under low temperatures and peak loads during the autumn/winter period, and in case of natural anomalies during periods of river floods, fires and thunderstorms. These are called "special periods" in our operations.

In 2013, Federal Grid Company ensured reliable work of the electric grid facilities during the St. Petersburg International Economic Forum, the 27th World Summer Universiade in Kazan, test competitions in Sochi, and other major events.

Based on its experience of operation in special periods, in 2013 the Company approved mandatory measures related to preparation for, and operation in special periods for all MES and PMES, as well as additional measures to ensure the reliable operation of electric grid facilities.

Forty-nine duty stations work on a permanent basis in Federal Grid's branches in order to maintain the reliable operation of the electric grid complex during disruptions of electricity supply to customers and in other contingency situations. Branch representatives take part in the work of duty stations that maintain electricity supply safety in the federal subjects of the Russian Federation. Federal Grid Company entered into 136 cooperative agreements with contractors that are involved, whenever necessary, in emergency and recovery efforts at the grid facilities. It also entered into 62 agreements with the local offices of RosHydroMet and 86 agreements with the local offices of the Russian Ministry of Emergency Situations.

The Company has a sufficient emergency reserve including a pool of major units. We take the following efforts in order to provide for better management of the electric grid facilities:

- The Company and subsidiaries of JSC Russian Grids arranged regular sharing of information about the existing emergency reserve and its locations.
- The status of transmission lines is video-archived during their inspections, walk-arounds and fly-arounds.
- The Company has 251 diesel-driven generators with total capacity of 60.8 MW to cover its own electricity needs at substations and in administrative buildings.

Operational Process Control

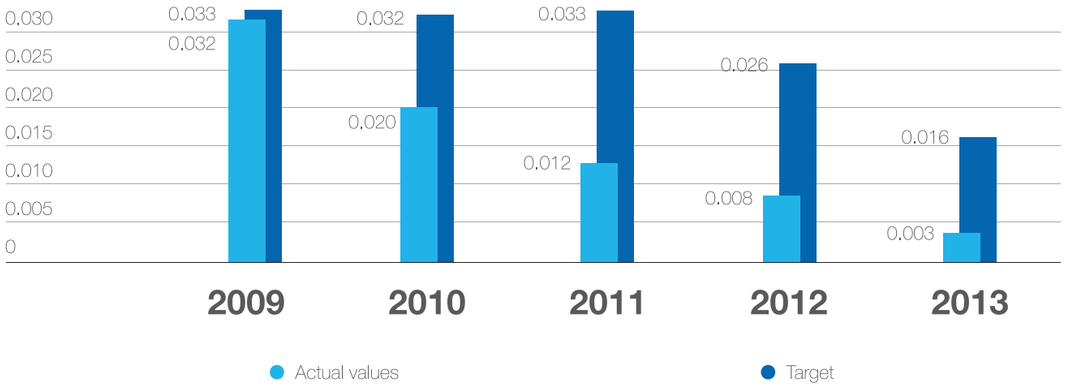
Operational process control in the Company is designed to ensure the reliable operation of the UNEG facilities and adhering to the operating modes that are set by the System Operator's control centres. Our task is to comply with the quality and safety requirements when we operate the UNEG facilities.

We have been taking proactive measures to reduce the number of process disturbances that are due to operating employee errors, and we are developing and implementing UNEG development programmes in cooperation with the System Operator's control centres.

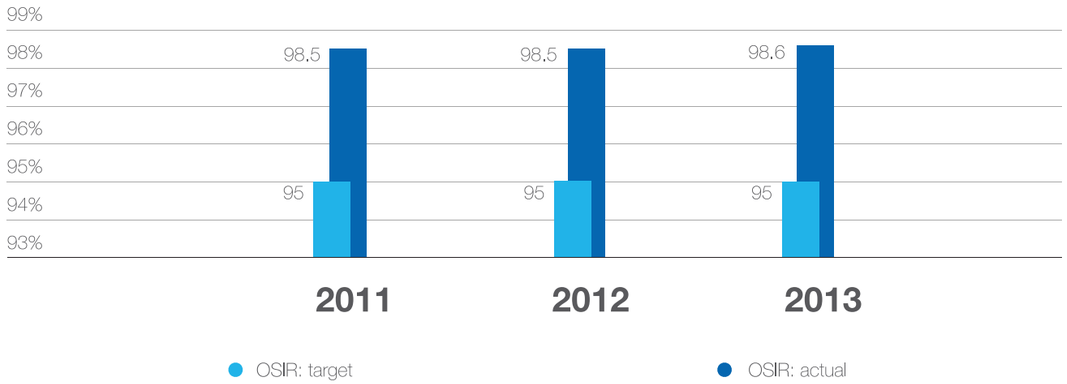
The function of Situation Management was delegated to the Operational Process Control Department in 2013 in order to prevent and deal with contingency and emergency situations at the Company's facilities. The task of Situation Management is to monitor the operational environment and provide information and analytical support to the Company's executives when they are making decisions to prevent or deal with incidents and emergency situations.

In the reporting year, the Company successfully met its key performance indicators, such as the rates of process disturbances (RPDs) caused by operating employee errors and outage schedule implementation rate (OSIR).

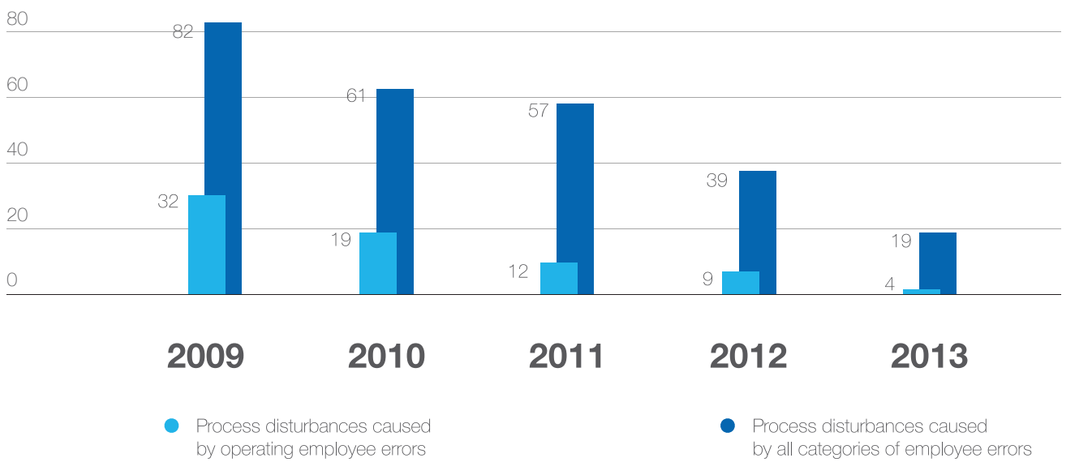
Target and Actual Values of Process Disturbances Caused by Operating Employee Errors in 2009–2013



Targets and Actual Values of Outage Schedule Implementation Rate in 2011–2013



Number of Process Disturbances Caused by Employee Errors in 2009-2013



Reducing Losses

Actual electricity losses in the Company's grids amounted to 22,261.5 million kWh in 2013, or 4.28% of electricity supplied from the grids.

Measures to reduce electricity losses for the reporting period were approved as part of the Programme for Energy Saving and Improving Energy Efficiency of Federal Grid Company. They were implemented in three key areas:

- optimisation of scheme and mode parameters in the process of the running and operational management of electric grids;
- cutting of electricity consumption for substation needs;
- construction, reconstruction and development of electric grids, and commissioning of energy-saving equipment.

As a result of the above actions electricity losses were reduced by 98.7 million kWh in 2013.

An increase in relative value of the process electricity consumption was due to the change in electric modes of UNEG operations resulted in the increase in load losses, as well as to commissioning of new electric grid equipment that led to an increase in conventional constant electricity losses. The amount of actual electricity losses did not exceed the regulatory standard set by the Russian Ministry of Energy in 2013.

Actual Electricity Losses in 2012–2013

	2012		2013		Change	
Federal Grid's branches	**mln kWh**	**%**	**mln kWh**	**%**	**mln kWh**	**p.p**
MES Centre	5,217.6	4.28%	5,054.0	4.10%	–163.5	–0.18
MES North-West	3,158.9	5.11%	3,119.2	5.13%	–39.7	–0.02
MES Volga	2,007.4	4.70%	2,118.0	5.01%	110.6	0.31
MES South	1,810.5	4.02%	1,740.9	3.89%	–69.6	–0.13
MES Ural	2,668.9	3.43%	2,824.8	3.72%	155.9	0.28
MES Western Siberia	3,102.8	4.74%	3,081.7	4.66%	–21.2	–0.08
MES Siberia	2,857.6	3.35%	3,075.0	3.48%	217.4	0.13
MES East	1,122.1	6.53%	1,247.8	6.80%	125.8	0.28
Total	**21, 945.8**	**4.24%**	**22,261.5**	**4.28%**	**315.7**	**0.04**

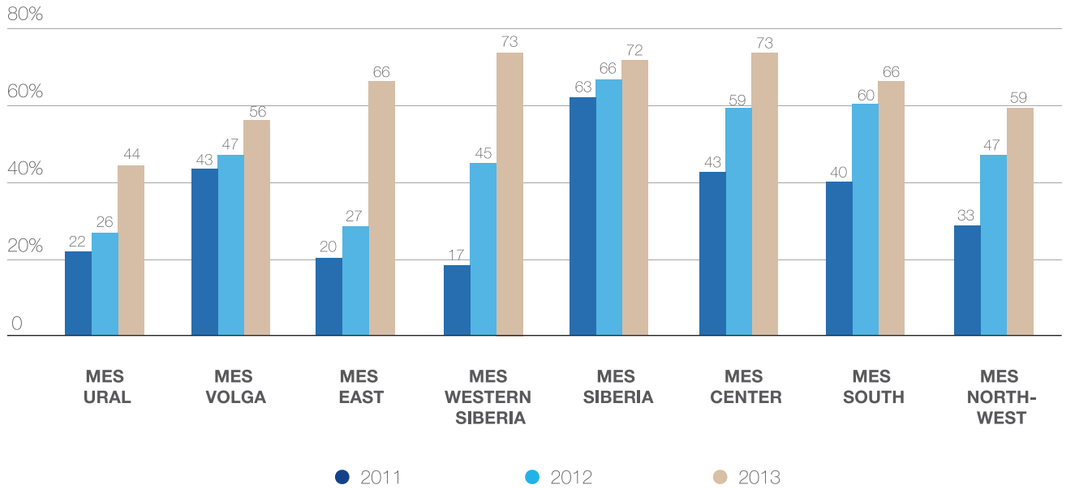
Development of Communication Networks and IT Systems

The development of UNEG, building a smart grid and managing of the Company's business efficiently are based on advanced and modern information and communications technology. Our Company has been building the Energy System's Unified Process Communications Network (ESUPCN), which is designed to manage the technological processes involved in the production, transmission and distribution of electricity, and for dispatch management and support of operations in the electricity industry.

The ESUPCN focuses on the digitalisation of the network and on making it smart. This is achieved through the installation of widespread and sophisticated multiservice communications networks at the grid facilities, the construction of a fibre-optic communications network (FOCN), and the deployment of satellite communications systems, mobile digital radio communication systems and other forward-looking technologies.

In order to improve the observability of the grid network and operational dispatch and process management, the Company identified the digitalisation of its communications channels at the level "Object – Dispatch Centre / Networks Management Centre" as its strategic priority.

Digitalisation of the Federal Grid's Electric Grid Facilities in 2011-2013



Fibre-optic communications network

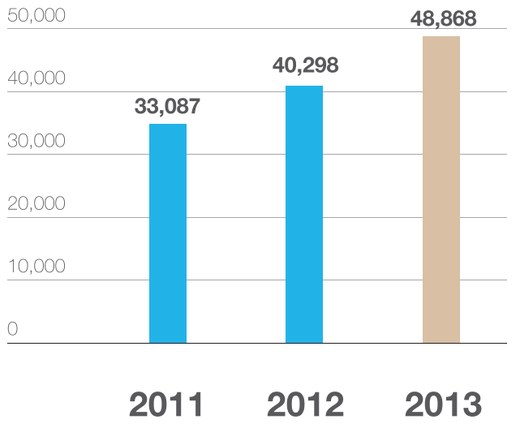
The fibre-optic communications network (FOCN) is the basic communications network for the energy system. It is based on the use of a fibre-optic cable which is suspended on overhead electricity transmission lines. In addition to building new FOCNs, we are working on the large-scale implementation of resources that are provided by major telecommunications operators based on long-term, ongoing lease agreements.

Prospective Scheme for the Company's FOCN until 2020

In 2013, Federal Grid Company completed construction of FOCNs on transmission lines at the following facilities:

- 220 KV Razdolinskaya – Nazarovskaya Hydropower Plant substation in the responsibility area of MES Siberia branch (555 km)
- Tyumen – Surgut – Nizhnevartovsk – Noyabrsk – Khanty-Mansiiysk, in the responsibility area of MES Western Siberia branch (2,200 km) (start-up facilities 1, 3, 4, 5)
- Samara – Orenburg – Orsk in the responsibility areas of MES Volga and MES Ural branches (520 km)
- Vologda – Arkhangelsk, in the responsibility area of MES Centre and MES North-West branches (1,050 km)
- St. Petersburg – Petrozavodsk – Murmansk, in the responsibility area of MES North-West branch (1,200 km).

Federal Grid's FOSN length increase in 2011–2013, km



Satellite Communications Network

In order to improve reliability and observability of the electric grid facilities, we installed VSAT-based satellite communications equipment at the Company's substations in 2013.

As the FOCN-based communications network is built, the satellite communications network will serve as the backup network. This will substantially reduce the communications costs.

High-Frequency (HF) Communications via Electricity Transmission Lines

An HF network is the electricity system's technological communications network that transmits information required for the management of technological processes in the both normal and emergency modes. It is a specific type of wire channels which uses phase wires and cables of overhead transmission lines to carry signals.

In 2013, as part of new construction and renovation of the electric grid facilities, Federal Grid upgraded some HF communications system facilities and decommissioned some other equipment because when FOCNs were operationalised.

INCREASE IN FEDERAL GRID'S FOSN LENGTH IN 2013

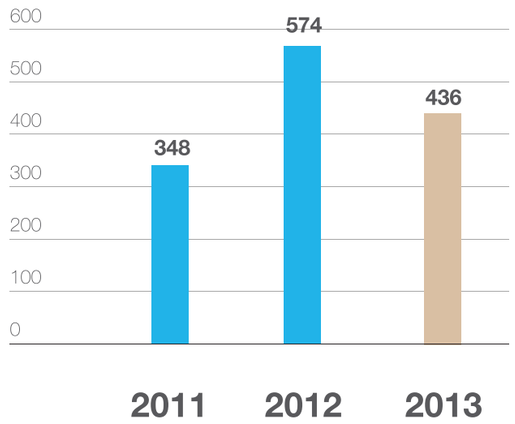
+8,570 km

Mobile Radio Network

Line personnel of overhead line services in PMES branches have cellular, satellite and USB radio equipment in order to maintain a reliable communications network.

In 2013, during preparations for the Sochi 2014 Winter Olympic and Paralympic Games, the number of line teams in Sochi PMES was increased to 101 and included additional staff members relocated from the Company's other branches. The larger line teams of Sochi PMES were fully equipped with all necessary mobile communications devices. In order to improve the reliability of USB communications, the teams received 88 additional DMR radio stations connected to JSC Kubanenergo's radio communications network, and 50 TETRA radio stations connected to the Federal Communications Agency's radio network..

Commissioning of HF Communications Systems at UNEG Electric Grid Facilities in 2011–2013



Telephone Communications Network

Based on the radial and hub network principle, the power industry's telephone communications network provides for interaction with the process network of the System Operator and other electricity market participants. The telephone communications development strategy includes the digitalisation of the network and the implementation of VoIP technology alongside traditional services.

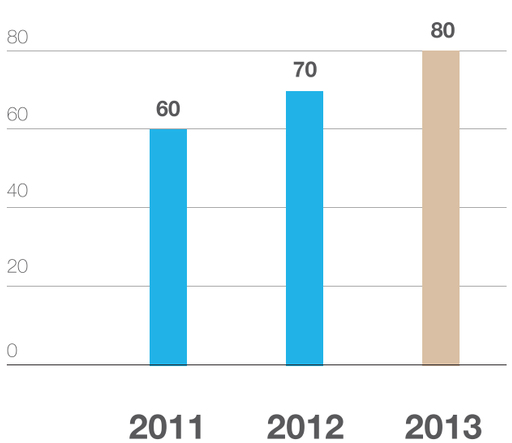
In 2013, Federal Grid installed more than 80 PABXs at its electric grid facilities, as well as systems for recording operational personnel communication, DECT wireless communications systems and loudspeaker and radio searching communications systems.

GLONASS-Based Systems

GLONASS-based systems that are installed in the Company's branches to monitor automotive and special vehicles and pedestrian personnel are designed to obtain real-time information about the location of the monitored vehicles / people, controlling the fulfilment of assignments, and for monitoring mileage and fuel consumption. These systems are integrated with a geographic information system and an automated system that monitors vehicle operations.

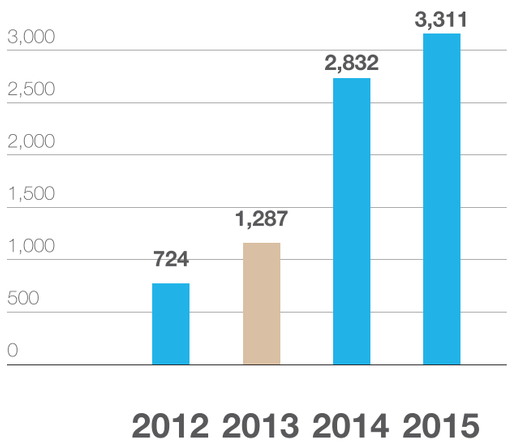
In 2013, GLONASS-based monitoring devices were installed on 563 automotive and special vehicles. The Company intends to equip more than 2,000 automotive and special vehicles with these devices in 2014-–2015.

Installation of Digital Equipment of Telephone Communications Systems at UNEG Substations



Equipped substations, % of total substations

Federal Grid's Automotive and Special Vehicles Equipped with GLONASS-Based System



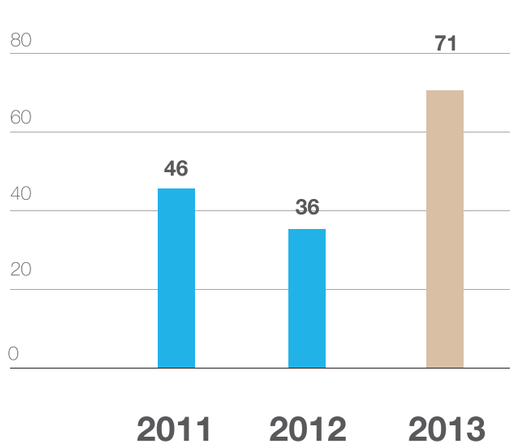
Automated Process Control System

The automated process control system (APCS) is a Company-wide distributed hierarchical system that allows both operational and non-operational functions to be performed by Electric Grid Control Centres, improves the efficiency of UNEG mode control by allowing a high level of observability, prevents outages and reduces the time for decision-making and the likelihood of errors by operational employees in emergency situations.

APCS is a system for the management of UNEG operations and development, so it integrates the devices and systems for the automated dispatch, processing and operational activities of the Company's administration and MES / PMES services.

In 2013 , the Company implemented measures to increase the observability of the UNEG facilities at 71 substations.

Installation of Data Input and Sharing Systems at UNEG Substations in 2011—2013



Development of Corporate Information-Based Management System

Business applications in APCS are a set of IT systems that are integrated in terms of methodology and equipment by special-purpose software integration technologies aimed to improve the Company's efficiency.

Federal Grid Company has a Consolidated Plan of IT Strategy Implementation. In the short term, to achieve its objectives the Company will:

- draft and implement an action plan to mitigate risks related to its IT strategy;
- adjust a portfolio of IT projects in accordance with Federal Grid's updated corporate objectives.

In 2013, the Company automated business processes related to investment activities, UNEG asset management, financial and economic operations, general corporate services and customer relations.

In accordance with its corporate IT strategy, in 2014 the Company will implement multiple projects of automated management of its industrial assets, IT integration and IT infrastructure, automation of general corporate services, financial and economic operations, management of investment activities and capital construction, automation of customer relations, situation management, management of business processes and HR.

Procurement

The Company makes purchases proactively in all regions where it operates. Its procurement activities are targeted at purchasing the necessary equipment and services on the competitive market within its corporate investment programme, and at fulfilling its annual repairs and target programmes.

The main document which regulates corporate procurement by Federal Grid is Regulations on the Procedure for Regulated Procurement of Goods, Works and Services. This is a fundamental document for the organisation of regulated procurement on methodological basis, with up-to-date, competition-based forms of purchases that are mostly made through tenders.

Principles of Procurement

Openness	The rules that regulate the organisation of procurement are publicly available at www.fsk-ees.ru. Information about violations of these rules can be sent to Federal Grid's Central Tender Commission. Most purchases are made through open tenders. Information about tenders is published on the corporate website and in the printed media.
Competitiveness	Procurement is regulated in such a way that priority is given to open tenders that provide the highest possible level of competition. Any limitation on competition, particularly sole source purchases , must be fully justified and agreed to collectively. In certain cases such decisions are made by the Central Tender Commission (CTC) only, subject to follow-up approval by the Company's Management Board.
Justification	The procurement rules require every decision to be justified and documented in order to increase the efficiency of purchases and to prevent corruption.

Federal Grid's Key Objectives in Procurement

- Reduce the Company's costs by saving funds during the procurement of goods, works and services
- Supply quality goods, works and services to the Company at minimal costs and strictly on time
- Optimise the procurement management system by pursuing best practices in this field

RUB 140.4 bn

VOLUME OF PURCHASES MADE THROUGH COMPETITIVE TENDERING IN 2013

91.8%

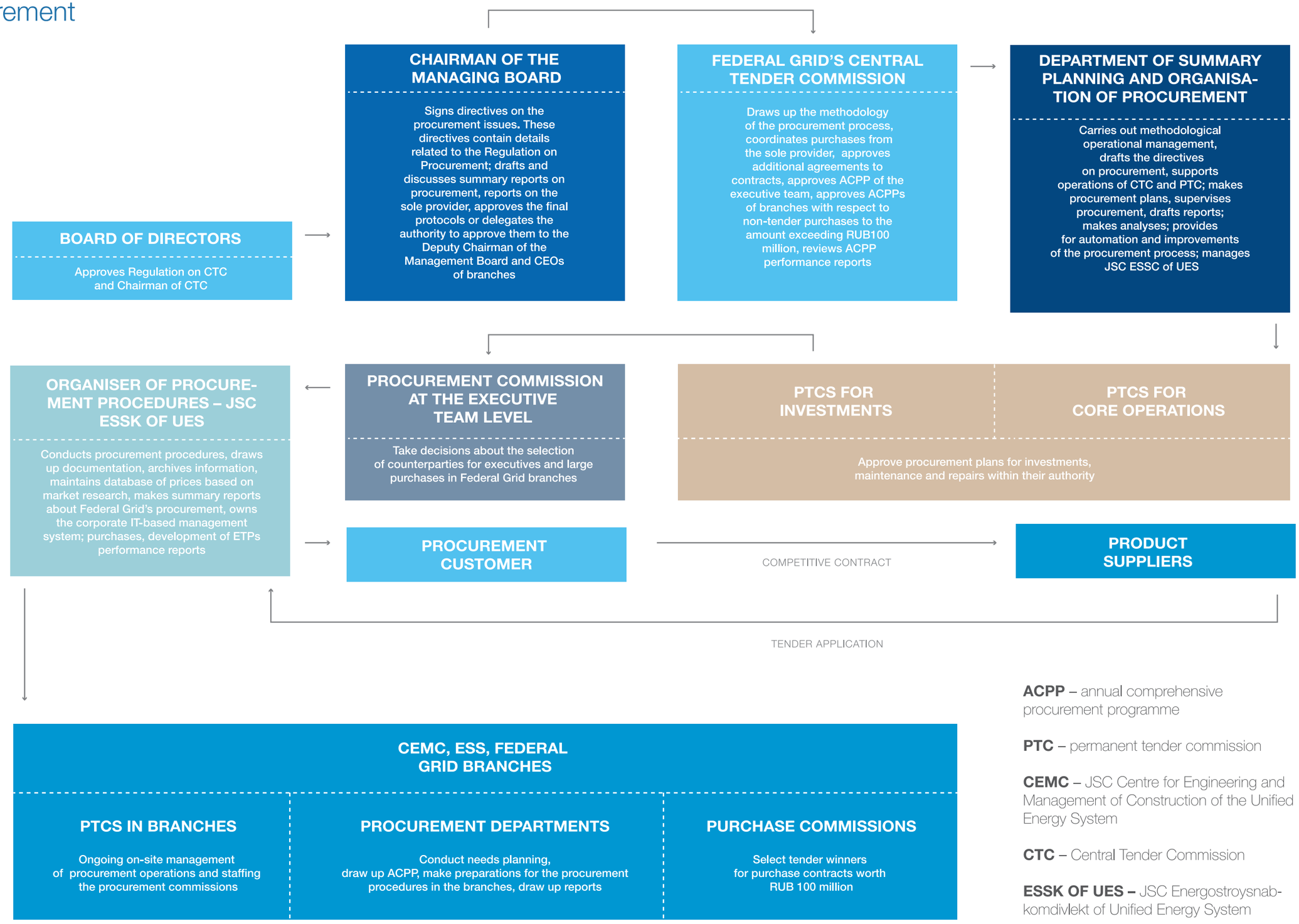
OF THE TOTAL VOLUME OF PURCHASES OF FEDERAL GRID COMPANY

2013 Regulated Procurements by Type

	Value of purchases made under procurement procedures, RUB billion	Number of procedures	Share in the total value of purchases made under procurement procedures, %
Open tender	109.2	1,069	71.5%
Open request for quote	0.3	243	0.2%
Open request for proposals	28.5	2,389	18.6%
Open competition-based bargaining	0.9	8	0.6%
Open auction	1.0	1	0.001%
Minor purchase	0.9	3,253	0.6%
Ordinary purchase	0.5	509	0.3%
Sole source	12.5	802	8.2%
Total	**152.9**	**8,274**	**100%**

Federal Grid has experience in building a procurement system; this is why, in 2013, it was invited by the Government and by non-government organisations to contribute to the drafting and refining of legislative acts on procurement. In the reporting year, it also continued to develop its internal procurement system. In 2013, Federal Grid began drafting the documents that improve access to its corporate procurement system for small and medium-size businesses. This work was done in accordance with the Roadmap for Support of Small and Medium-Size Business approved by the Russian Government.

Procurement



ACPP – annual comprehensive procurement programme

PTC – permanent tender commission

CEMC – JSC Centre for Engineering and Management of Construction of the Unified Energy System

CTC – Central Tender Commission

ESSK OF UES – JSC Energostroysnabkomdivlekt of Unified Energy System

Import Substitution Policy

The Company is taking actions to support and develop domestic manufacture of electrical equipment and increase the share of Russian-made equipment in supplies under its corporate investment programme.

The Company entered into 97 cooperative agreements with electric engineering companies, including 79 agreements with the manufacturers of electrical equipment; 74 of them are Russian companies

Principles of Import Substitution Policy in Federal Grid Company

- Reduction of reliance on imports
- Implementation of innovative energy-efficient technologies
- Development and upgrade of Russian industrial production
- Development production and research capacity
- Maintaining the country's energy security and industrial integrity
- Raising the process level of production
- Creating new jobs.

Long-Term Supply Contracts between Federal Grid and Electric Manufacturers

JSC Power Machines	High-Voltage Transformers Plant, a transformer producer of Power Machines Toshiba LLC, began operations on 15 November 2013. Supply of transformers for nominal voltage of 110-750 to Federal Grid's facilities are scheduled to begin in 2014. According to the approved schedule, the localisation level should be 35% in 2014 and 55% by the end of 2018.
Hyundai Electrosystems LLC	A plant in Artem opened on 25 January 2013. It will produce 110-–500 kW gas insulated switchgear cubicles. This equipment is undergoing certification in accordance with Federal Grid requirements, so that it could be used at the Company's facilities. According to the approved schedule, the localisation level should be 13.5% in 2014 and 56.7% by the end of 2017.
JSC Holding Company Electric Plant	The plant has been supplying transformers for nominal voltage of 110-750 kW to Federal Grid's facilities since 2012.
Siemens Transformers LLC	Under a long-term supply contract, the plant supplies transformers for nominal voltage under 220 kW. This equipment is made in Voronezh and has successfully passed certification for consistency with Federal Grid's technical requirements. According to the approved schedule, the localisation level should be 77.5% in 2014–2017

In the near future we intend to draft a Comprehensive Programme for Substitution of Imported Equipment, Materials and Technologies for 2015–2020.

Investments and Innovative Development

	2013 TARGET	2013 ACTUAL	2014 TARGET
Investment programme financing, RUB bn	156.6	149.7	113.0
Commissioning, RUB bn	140.6	169.4	118.5
Meeting the investment financing plan targets, %	100	96	100
Meeting the capital investments deployment plan targets, %	100	118	100
Meeting the industrial capacity commissioning plan targets, %	100	93	100
Meeting plan targets for the commissioning of power lines, %	100	114	100
R&D investment, RUB mln	1,685.4	1,654.1	704.0

Investment Activities

The main objectives of Federal Grid Company's investments are modernisation and improving reliability of the unified energy system operations, required to provide uninterrupted power supply to the consumers. As part of its investment activities, the Company implements projects on the construction of new electrical grid infrastructure facilities and reconstruction of existing ones.

As of 2013, the volume of capital investment remains higher than the financing. Additionally, exceeding the facilities commissioning plan targets by 21% resulted in a lower, relative to the previous year, volume of construction in progress and confirmed the effectiveness of regulation based on long-term parameters.

TOTAL VOLUME OF INVESTMENT PLANNED FOR 2014–2018

RUB 577.8 bn

Basic parameters of the Federal Grid's investment programme for 2013

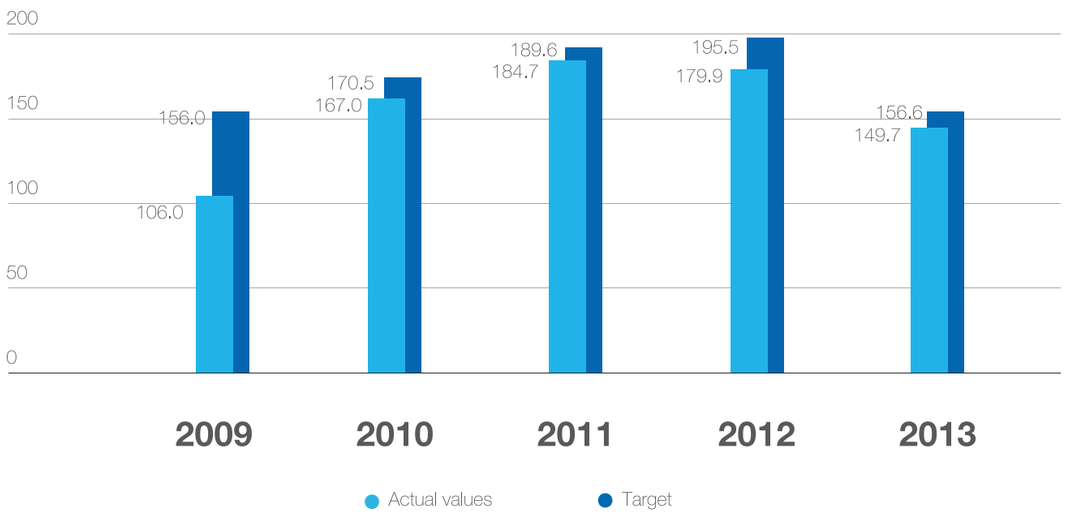
	target		actual	
Financing, RUB billion (including VAT)	156.6		149.7	
Deployment of capital investments, RUB bn (including VAT)	148.5		174.8	
Conversion of construction in progress into fixed assets, RUB bn	140.6		169.4	
	MVA	km	MVA *	km
Deployment of industrial capacities	14,586 (commissioning of power facilities)	3,235	10,793	3,690

** The analysis of actual commissioning figures should take into account the capacity that has been commissioned ahead of schedule (before 2013) at the facilities included in the 2013 plan, and the capacity that was postponed for commissioning because of circumstances beyond the Company's control. Therefore, while calculating the completion rate, figures included in the 2013 plan should be adjusted by the volume of capacity that had been commissioned earlier and postponed.*

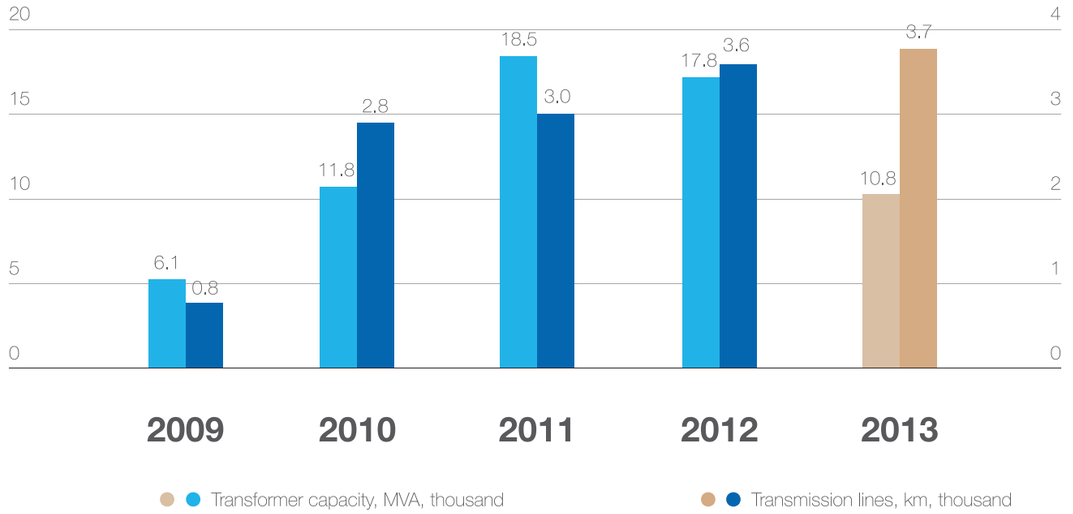
Commissioning plan – 2013	*14,586 MVA*
Commissioned before 01.01.2013	*2,627 MVA*
Postponed for 2014	*365 MVA*
Adjusted plan for 2013	*11,594 MVA*
Actual 2013 data	*10,793 MVA*
% of completion, including pre-schedule and postponed commissions	*93%*

Overall, Federal Grid has met the 2013 investment programme plan targets. In particular, its performance was 96% for financing, 118% for development, 121% for conversion of construction in progress into fixed assets, 93% for commissioning transformer capacities (as adjusted), and 114% for commissioning of transmission lines.

Investment financing trend for 2009–2013, RUB bn



Federal Grid capacity commissioning trend for 2009 –2013



The main reasons for deviations from the targets in 2013 were frugal consumption following facility commissioning, applicant's refusal to be connected to the grid, the need to adjust the design documentation, as well as, in some cases, the absence of an executed agreement to perform the necessary work at the facility.

Below are the projects where the greatest deviations occurred in terms of commissioning new capacities and financing:

- 220 kV approach lines to the Vladimirskaya-2 CHP (Combined Heat and Power) plant and electrical grid connection of JSC "TGC-6": the lag in financing and development was caused by the need to change the technical aspects of the project implementation due to the passage through a protected natural area, as well as the need to seek approval for the passage of the line from the local administration.

- Construction of a daisy chain approach line on the 220 kV DS (Distribution Substation) of the Novokuznetskaya STTPP (Steam Turbine Thermal Power Plant) as part of the reconstruction of the 220 kV Elanskaya – Ferrosplavnaya HVL and the 220 kV Ferrosplavnaya – NAP (Novokuznetsk Aluminum Plant) HVL: failure to complete was caused by the unavailability of the infrastructure of the generating facility – the Kuznetskaya CHPP, modules No. 14 and 15.

- Construction of the approach lines for the 220 kV Tsinkovaya – Novometallurgicheskaya HVL and the 220 kV Shagol – Novometallurgicheskaya HVL to the newly constructed 220 kV DS of the Chelyabinskaya GRES (State District Power Plant): failure to complete was caused by the need to postpone the commissioning based on consultation with the administration of the generating facility – the Chelyabinskaya GRES.

- 220 kV Rostovskaya NPP – Volgodonsk DS HVL with 220 kV Volgodonsk DS and 220 kV HV approach lines of Volgodonskaya-2 CHPP – Zimovniki: failure was caused by the need to postpone the commissioning based on consultation with the administration of the generating facility – Rostovskaya NPP

Furthermore, the overall performance in terms of capacity commissioning in 2013 was affected by the postponement until 2014 of the following power facilities that had been scheduled for commissioning:

- New construction of the 220 kV Stupino SS with approach lines to 220 kV Kashira – Pakhra HVL: in consultation with the applicant for the grid connection, the commissioning was postponed until 2014.

- Two 220 kV Prizeyskaya – Elgaugol HVL with 220 kV Elgaugol SS, the 220 kV "A" and "B" SS's, and an extension of the 220 kV Prizeyskaya SS 220 kV open switchgear: the commissioning was postponed until 2014 due to the need to adjust the project because of the changes in the technical parameters and solutions in the infrastructure of the applicant.

Long-term Investment Programme

The investment plan for the next five years is presented by the draft adjustments to the investment programme of Federal Grid Company for 2014 and the investment programme for the period of 2015 – 2019. The draft investment programmes have been submitted to the Ministry of Energy of the Russian Federation in accordance with the "Rules for approval of investment programmes for electric power companies that include the State as a participant in their authorised share capital and grid companies", adopted by the Resolution of the Russian Government No. 977 dated 1 December 2009.

During the work on the draft investment programmes, project cost indicators were also further adjusted based on the results of expert evaluation of the projects, and the financing for the projects was adjusted accordingly.

The investment programmes were drafted taking into account the assignment of the Chairman of the Government of the Russian Federation No. DM-P13-6323 dated 4 September 2013, on the preparation of investment programmes of natural monopolies based on a forecast of prices for services of natural monopolies remaining level in 2014 relative to 2013, and the assignment of paragraph 2 of the protocol of the meeting hosted by the office of the Deputy Minister of Energy V. M. Kravchenko No. VK-428pr dated October 15, 2013, for the scenario of tariff and credit constraints.

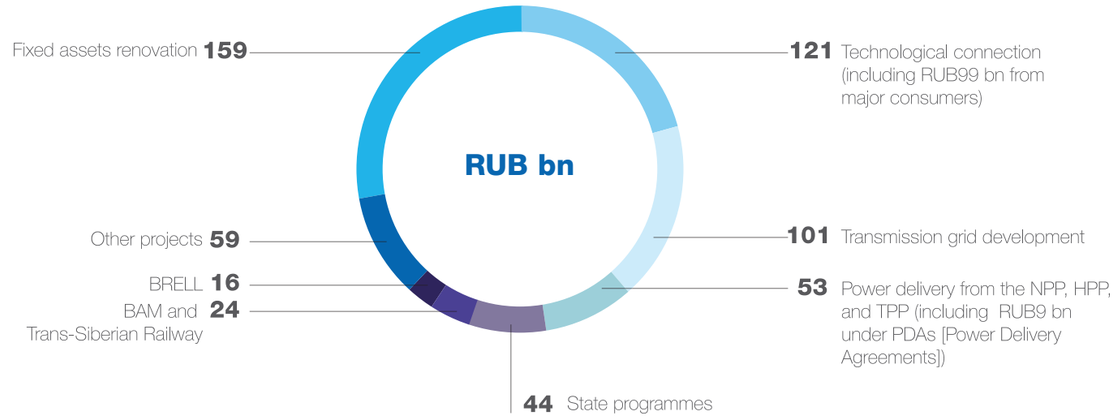
The main goals of the long-term Federal Grid's investment programme are:

- Modernisation and reliability improvement of the unified energy system to ensure uninterrupted electricity supply to the consumers
- Ensuring electricity supply to the facilities of national significance (to ensure reliable operation of UES Russia working separately from the energy systems of the Baltic States, in order to compensate the effects of reduced capacity of the electrical connections of IPS (Integrated Power System) Centre and IPS North-West and change the operating modes of the BRELL energy ring; the Eastern Siberia – Pacific Ocean pipeline, the Skolkovo innovation centre, as well as the development of the electrical grid infrastructure in Eastern Siberia and the Far East, including that associated with the expansion of the capacity of BAM and the Trans-Siberian Railway; as well as other projects)
- Removing grid restrictions, ensuring the quality and accessibility of services for electricity transmission and technological connection for the consumers
- Synchronisation of the development programmes with the generating facilities and distribution grids
- Improving the efficiency of the backbone electric grids by reducing the costs and implementing energy efficiency programmes
- Establishing an effective system for the management of UNEG operations to improve the observability of the electric grid facilities

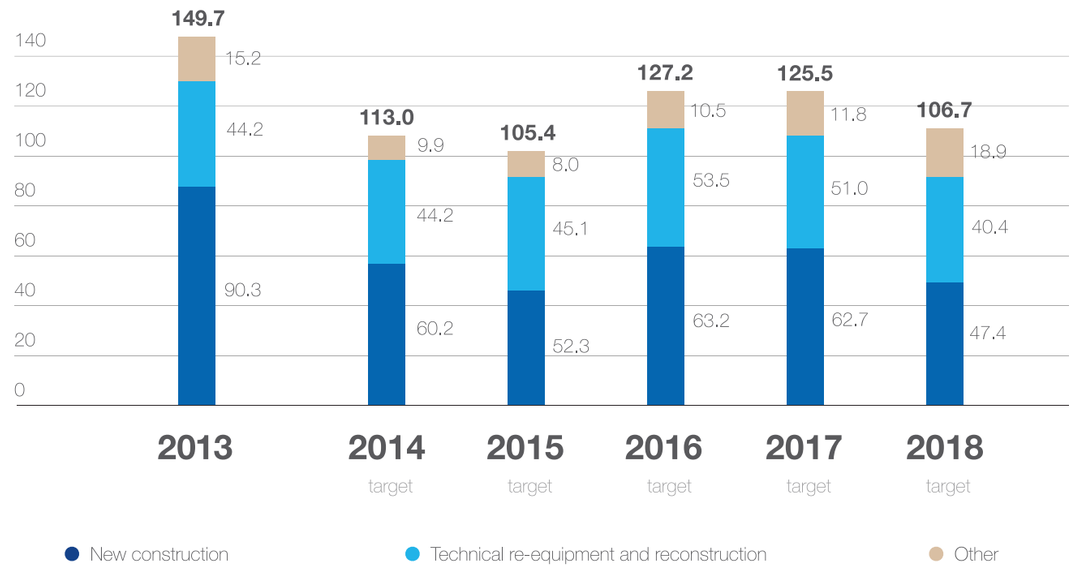
In this five-year period under consideration, the total amount of investment planned for 2014 – 2018 is RUB577.8 billion, which will be used to introduce 64,300 MVA of capacity and 17,600 km of transmission lines into the fixed assets of Federal Grid.

Financing of the investment programmes will be carried out using Federal Grid's own funds, loans and lines of credit, as well as other sources. The programmes provide for a uniform distribution of the investment costs over the 5-year period, which will enable the Company to maintain a balanced structure of its financing sources.

Federal Grid capital investments by project for 2014 – 2018, RUB bn



Structure of Federal Grid's capital investments for 2013 – 2018, RUB bn



Key Investment Projects

Federal Grid Company is most actively involved in the construction and reconstruction of the largest Russian energy infrastructure projects, such as international forums and major sporting events, oil transportation projects, and development programmes for Russian regions. We understand the importance of these projects and do everything possible to build or reconstruct the grid facilities on time and to the highest standards.

Successful completion of the transmission grid development projects for electricity supply to the facilities of the 2014 Winter Olympics

As part of the Programme for the Development of Electric Grids in the Sochi Region for 2008 – 2014, aimed to ensure the functionality of the Olympic sports facilities, Federal Grid built and reconstructed a total of 36 electric grid facilities, including 14 substations with a total capacity of 1,715 MVA and 326.6 km of transmission lines.

Over the fiscal year, as part of the Sochi project, a 110 kV Sportivnaya substation was built with a capacity of 80 MVA to provide backup power to the Olympic facilities of the Rosa Khutor Alpine Resort and the Olympic mountain village infrastructure. Additionally, in 2013, a 220 kV Chernomorskaya distribution substation was built.

In accordance with the Russian Government Resolution "On introducing amendments to the construction programme of the Olympic venues and development of the city of Sochi as a mountain resort", the scope of Federal Grid responsibility was expanded to include 3 new power facilities supplying electricity to the Gornaya Karusel sports and tourism complex and the K-125/K-95 ski jumping complex.

To ensure a reliable electricity supply for the 2014 Olympics, the plan included the construction of 4 additional facilities not included in the Olympic programme. In particular, Federal Grid Company completed the reconstruction of the 220 kV Dagomys substation, increasing its capacity by 70% to 472 MVA. Also underway is the reconstruction of the 220 kV Shepsi substation and the 220 kV Shepsi – Dagomys electricity transmission lines.

By the start of 2014, Federal Grid's obligations to prepare the energy infrastructure of Sochi for the Winter Olympics had been 100% fulfilled.

To ensure the uninterrupted operation of the Sochi power system during Olympic Games we engaged about 2,000 employees and more than 250 units of equipment of Federal Grid Company, its subsidiaries and associates. The "Olympic" team of Federal Grid included about 1,300 people trained in what to do in various emergency situations.

Preparation of the power infrastructure of the city of Sochi for the 2014 Winter Olympics

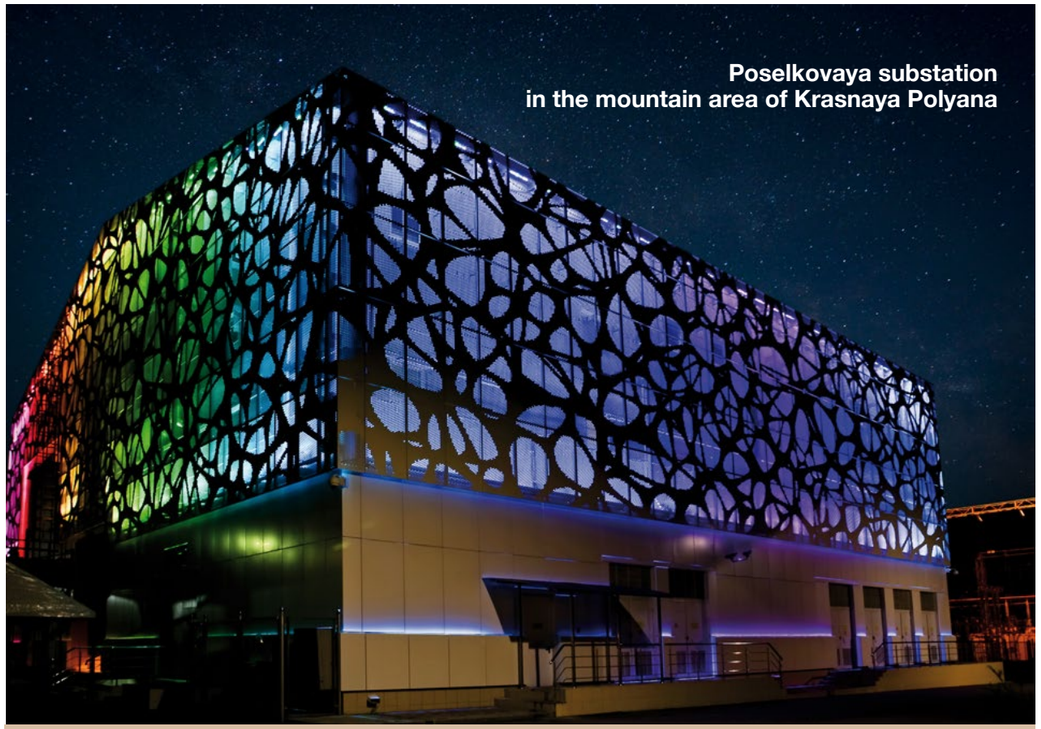
Number of projects under the investment programme	27
Designed capacity	1,715 MVA 326.6 km
Implementation timeframe	2008–2014
Number of electric grid facilities	36
Cost of the projects completed	33.4 RUB bn
Readiness of the facilities	100%

In the event of an emergency where the maximum consumption exceeds the total available capacity of the power sources of the Sochi district, the excess demand was designed to be met by the mobile gas turbine power plants with a capacity of 202.5 MW and by additional power output from the TPP of the Tuapse oil refinery of up to 100 MW.

BY THE START OF 2014, FEDERAL GRID'S OBLIGATIONS TO PREPARE THE ENERGY INFRASTRUCTURE OF SOCHI FOR THE WINTER OLYMPICS HAD BEEN

100%

FULFILED



Poselkovaya substation in the mountain area of Krasnaya Polyana

220 kV Poselkovaya SS was constructed in a mountainous area with the use of advanced technologies. It provided electricity supply to all sporting venues of the mountain cluster of 2014 Olympics, including bobsleigh track, ski and biathlon centres, ski jumps and Mountain Olympic Village. Besides, commissioning of Poselkovaya substation enabled the connection of about 100 new facilities to the electric grid, including such unique ones as Kavkaz biosphere reserve, native plant nursery, and ornithological reserve.

New technologies at the Olympic facilities

In the course of the work on the Olympics related electric power facilities, new technical solutions are being actively deployed:

- Overhead cable lines with XLPE insulation connecting the 110 kV substations under construction, are more environmentally friendly, safe, and reliable in operation compared to the traditional overhead lines.
- The use of gas-insulated switchgear (GIS) sets will significantly reduce the area of the substations, render their operation silent, minimise the impact on the environment, and protect the equipment from external forces.
- To combat icing, the electricity transmission lines are equipped with a unique ice load control system, which creates the conditions for stable operation in the normal mode and a reliable energy supply to the consumers.

Development of the electric grids of the Far East and Transbaikal

Amur Oblast As part of the Federal Target Programme "Economic and social development of the Far East and Transbaikal for the period through 2013", one of the major projects of the Federal Grid investment programme was completed in the fiscal year – the construction of the 500 kV Zeyskaya HPP – Amurskaya – National Border HVL (2nd stage of the 500 kV Zeyskaya HPP – Amurskaya No. 2 HVL). The facility is being commissioned in the Amur Oblast and is designed to increase the grid capacity in an easterly direction and arrange for export of electricity from the IPS East electric grid to the People's Republic of China. By the time the project was completed, more than 363 km of high-voltage transmission lines had been commissioned.

Republic of Buryatia Another project is being implemented in the Pribaykalsky District of the Republic of Buryatia: the design and construction of the dual-circuit 220 kV Tataurovo – Goryachinsk – Barguzin HVL with the 220 kV Goryachinsk SS and 220 kV Barguzin SS, as well as the reconstruction of the 220 kV open switchgear at the 220 kV Tataurovo SS. The project is scheduled to be implemented over the 2010 – 2019 period, and the total cost of the construction will be RUB7.6 billion. The construction is being financed with Federal Grid's own investment funds as well as those from the Federal Budget.

The new energy facilities will supply electricity to the facilities under construction in the Baikal Harbor special economic zone, such as the Centre for Eastern Medicine, port, as well as sports and recreation and hotel complexes. Additionally, there will be a significant increase in the reliability of the electricity supply to the Barguzinsky, Kurumkansky, and Pribaykalsky Districts of the Republic with a population of 72 thousand people, as well as

the East-Siberian Railway and the Pribaykalsky National Park.

Yakutia As part of the effort to improve the reliability of electricity supply to the districts of South Yakutia, our company is building a 220 kV Neryungrinskaya GRES – Nizhny Kuranakh – Tommot-Maya HVL with 220 kV Tommot SS and 220 kV Maya SS. Implementation of the project is scheduled for 2009 – 2016, and the total cost of the construction will be RUB19.3 billion, to be financed, among other sources, from the Federal Budget.

Facilities of the first (275 km) and the second stage (480 km, 440 MVA, and 200 Mvar, 275 km) were commissioned in 2011; commissioning of the 434.6 km was carried out in 2013; introduction of 440 MVA and 45.5 km is planned for 2016.

Implementation of this project will enable to connect the isolated central power district of Yakutia to the IPS East electric grid and to abandon the costly independent power supply sources. In addition, conditions will be created for connecting new consumers and economic development of South Yakutia.

Programme to contain the fallout from the accident at the Sayano-Shushenskaya HPP

As part of the programme to contain the fallout from the accident at the Sayano-Shushenskaya HPP, in 2013 Federal Grid Company deployed 501 MVA of transformer capacity under the project "Expansion of the 500 kV Ishim (Zarya) SS".

The upgraded substation serves to improve the reliability of electricity supply to the consumers of the Omsk power system and the southern Tyumen Oblast, and also connects the systems via the 500 kV Kurgan – Vityaz and Vityaz – Voskhod overhead lines, necessary to increase the maximum flow of the IPS Siberia – IPS Ural unified power system.

Development of the electric grids in the Krasnoyarsk Krai

To deliver power from the Boguchanskaya HPP and ease the energy shortage in the Boguchansky and Motyginski Districts of the Krasnoyarsk Krai, as well as to enable integrated development of the Lower Priangarye area, our Company has completed the construction of the 500 kV Boguchanskaya HPP – Ozernaya HVL 330 km in length.

Additionally, we have completed the third stage of the deployment of transformer capacity under the project "Reconstruction of the GPP-220/110/10 kV substation".

Enabling power delivery from the Kalininskaya NPP

Federal Grid continues to implement projects enabling electricity transmission from power unit No. 4 with a capacity of 1,000 MW of the Kalininskaya NPP. In 2013, the project "500 kV Gribovo – Dorokhovo HVL with a 500 kV Dorokhovo SS and 220 kV HV approach lines" was completed. The Gribovo – Dorokhovo line is the first segment of the second energy ring around Moscow. Over the fiscal year, 1,502 MVA of transformer capacity and 81 km of transmission lines were commissioned.

Basic parameters of the key investment projects

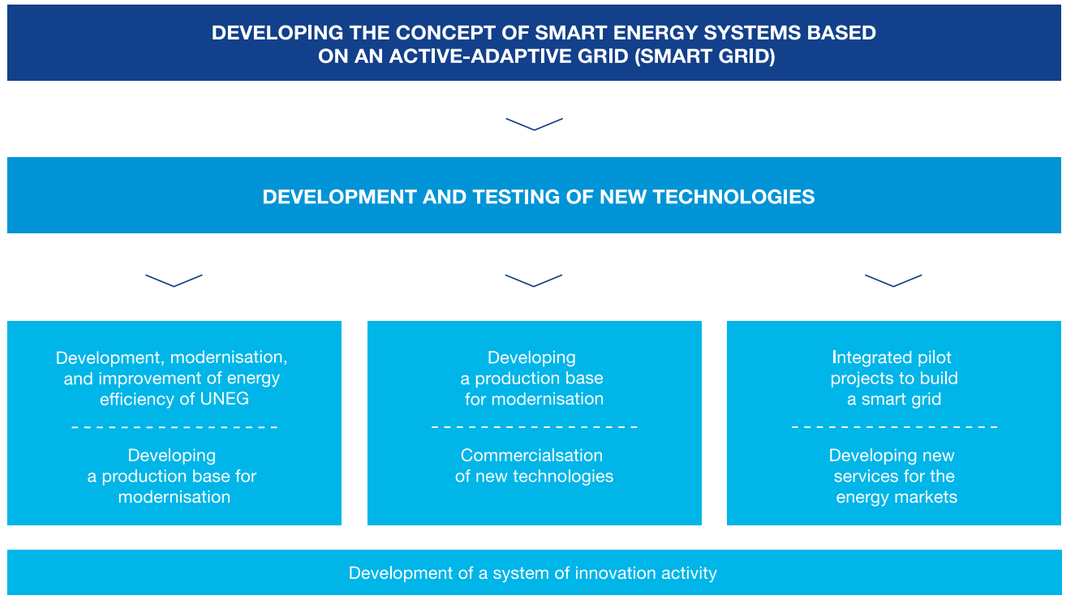
Project	Project implementation timeframe: start	Project implementation timeframe: completion	Commissioned in 2013	Design capacity	Total cost of the construction, RUB bn
Construction of the 500 kV Zeyskaya HPP – Amurskaya – National Border HVL power bridge	2010	2013	363 km (2nd stage of the 500 kV Zeyskaya HPP – Amurskaya No. 2 HVL)	1st stage – 152.76 km, 180 Mvar 2nd stage – 362,4 km, 6x60 Mvar, 1x60 Mvar	14.9
Design and construction of the dual-circuit 220 kV Tataurovo – Goryachinsk – Barguzin HVL, 220 kV Goryachinsk SS, and 220 kV Barguzin SS Reconstruction of the 220 kV open switchgear at the 220 kV Tataurovo SS	2010	2018	–	1st stage – 2x125 MVA, 132.3 km 2nd stage – 2x25 MVA, 119.9 km	11.1*
Construction of the 220 kV Neryungrinskaya – Nizhny Kuranakh – Tommot-Maya HVL, 220 kV Tommot SS, and 220 kV Maya SS	2009	2015	435 km	1st stage – 275 km, 2nd stage – 45.5 km, 434.6 km. 2x63 MVA, 2x125 MVA, 2x16 MVA, 2x16 MVA, 2x100 Mvar	19.3*
Expansion of the 500 kV Ishim (Zarya) SS, to be subsequently renamed Vityaz SS (construction of a 500 kV wing)	2010	2014	501 MVA	501 MVA	4.5
Construction of the 500 kV Boguchanskaya HPP – Ozernaya HVL Reconstruction of the GPP-220/110/10 kV substation	2010	2014	330 km	329.9 km, 180 Mvar	10.0
Construction of the 500 kV Gribovo –Dorokhovo HVL and 500 kV Dorokhovo SS with 220 kV HV approach lines	2010	2014	1,502 MVA 81 km	500 kV HVL 85 km, 2x501 MVA, approach lines 2x12 km, 2x250 MVA	9.8

** the construction will be financed, among other sources, from the federal budget.*

Innovative Development Programme

The goal of the Federal Grid innovative development is to improve reliability, quality, and cost efficiency of the energy supplied to the consumers through modernisation of electric grids of the Unified Energy System of Russia based on innovative technologies that are then transformed into the intellectual core of the technological infrastructure of the electricity industry.

Federal Grid innovative development initiatives



The Management Board and the Strategy Committee under the Board of Directors of Federal Grid Company have approved the main provisions of the Federal Grid Innovative Development and Modernisation Policy, implementation of which will result in the creation of a smart grid based on innovative solutions.

Our innovation policy is comprehensive in nature and includes the following areas: setting innovative development goals and objectives; developing effective methods and means to achieve these goals; selection and organisation of personnel able to undertake the innovation tasks.

To achieve the goals and objectives of the innovation policy, a comprehensive Federal Grid Innovative Development Programme for 2013–2017 was developed, with an outlook through 2020, covering the following main areas:

With regard to the **development of new technologies and launching innovative products**:

- Development of the concept of a smart power system based on an active-adaptive grid
- Development and testing of new technologies of Federal Grid Company
- Commercialisation of new technologies
- Development of new Federal Grid services for the energy markets
- Energy efficiency improvement programme

- Programme to improve the environmental impact of Federal Grid Company
- Collaboration with institutions of higher education and scientific organisations
- Programmes to develop partnerships with innovative small and medium enterprises
- Interaction with venture capital firms
- Interaction with the Skolkovo Institute of Science and Technology

With regard to the **deployment of new technologies**:

- Integrated pilot projects to create an active-adaptive grid
- Development, modernisation, and improvement of energy efficiency of UNEG
- Building a production base for modernisation of UNEG

With regard to **innovative business processes**:

- Improving business processes and introducing new management methods
- Development of a system of innovation activity at Federal Grid Company

The key outcome for the system of implementation of the Programme in 2013 was the continued emphasis on innovation activity of Federal Grid Company in implementing innovations and related activities. This was possible due to the fact that during 2010 – 2012, as part of the R&D projects and programmes, significant results were achieved that met the requirements of innovativeness (including in terms of implementation of the smart grid Concept), as well as in connection with the objective necessity for practical testing and deployment of innovative solutions at the UNEG facilities.

Maintaining a focus on innovative development in the electric grid complex and choosing to focus on deployment activities enabled an increase in spending on the Innovative Development Programme for the year despite the cutbacks in the investment programme. Instead of the planned RUB 9,907.9 billion, RUB 12,165.8 billion was allocated to the implementation of the Programme. Adequate resource allocation in conjunction with the improved efficiency of the innovation activity enabled Federal Grid Company to meet all the performance targets of the Innovative Development Programme for the fiscal year.

Meeting key performance targets of Federal Grid's Innovative Development Programme through 2017 with an outlook through 2020, in 2013

Indicator	Actual value as of the end of the year preceding the fiscal year 2012 actual	Target value set in the Innovative Development Programme for the fiscal year 2013 target	Actual value as of the end of the fiscal year 2013 actual	Assessment of whether or not the target indicator has been met
Trend of reducing the cost of repair of a unit of grid equipment relative to the cost level of 2010, %	1.2	1	1	Met
Share of the spending on equipment purchased from domestic manufacturers in the total spending on equipment purchasing, %	39	34	38	Met
Share of electricity lost in the total volume of electricity transmitted through the grid, %	4.24	4.48	4.28	Met
Number of company staff per 100 km of power transmission lines (number of people)	16.4	16	14.76	Met
Area of land in metropolitan areas freed from the grid infrastructure, ha	105	200	200	Met
Share of undersupply of electricity to consumers in the total volume of electricity transmitted through UNEG, %	0.0006	0.0028	0.0006	Met
Number of exclusive rights documents (patents and registration certificates) obtained through the R&D work for the year	64	35	55	Met
Number of technologies and products developed and introduced into production through the R&D work, pcs.	5	2	4	Met
The share of R&D expenditure at the own expense of JSC "FGC UES" relative to the revenue , %	2.1	1.1	1.1*	Met
Share of funds secured from external sources in the total financing, %	11	2.0	3	Met
Share of expenditures on R&D performed by universities relative to the total R&D expenditure, %	1.5	1.0	2.4	Met

** revenue from electricity transmission through UNEG*

Detailed information on the projects implemented in 2013 under the Federal Grid innovative development initiative is set out in Appendix to the Annual report **on the memory stick attached**.

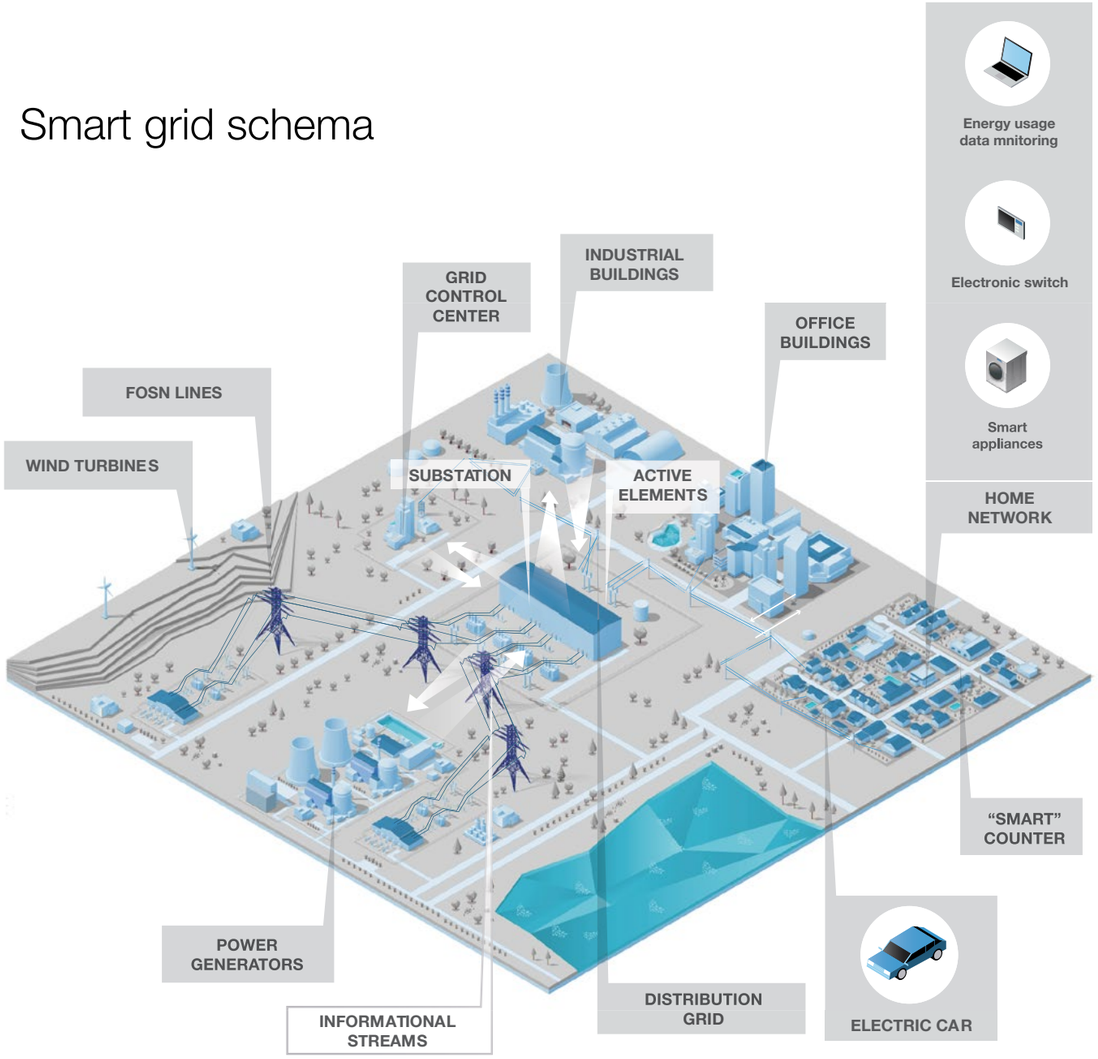
INVESTMENT IN R&D IN 2013

RUB 1,654 mln

Smart (Active-adaptive) Grid

In the long term, the result of the implementation of the Innovative Development Programme should be the creation of an electric power system with a smart grid that differs from the existing grid because of its innovative features: automated energy consumption management systems, active grid elements with variable parameters, a current grid status assessment system, and automated real-time systems that support operation of the power system within the prescribed limits as part of a unified analysis and decision making system. The basis for the smart grid structure and the power system management principles is prioritisation of the system factors and conditions – reliability and efficiency of the system as a whole.

Smart grid schema



New principles and technologies underlying the construction of the smart grid

- The grid is saturated with active elements that allow changing the topological parameters of the grid
- Sufficient number of sensors measuring the current operating parameters to assess the status of the grid in different modes of operation of the power system
- A system for collection and processing of data and controls for the active elements of the grid and electric installations of the consumers
- Presence of the necessary control devices and mechanisms that enable real-time changes to the topological parameters of the grid and interaction with the connected energy facilities
- Mechanisms for automatic assessment of the current situation and forecasting of the grid operation
- High performance control system and high-speed information exchange

Detailed information about the projects implemented in 2013 related to the Federal Grid innovation development is presented in the "Basic provisions of the Concept of the Smart Electric Power System of Russia with an Active-adaptive Grid (approved by Resolution of the joint Scientific and Technical Council of Federal Grid Company and the Russian Academy of Sciences in 2011).

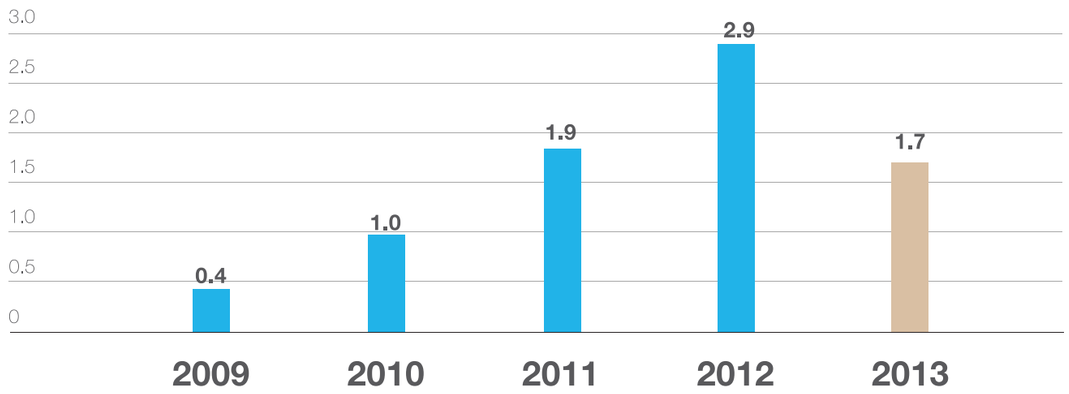
Research and Development, Industrial and Experimental, and Technological Activities ("R&D Activities")

The Innovative Development Programme includes R&D activities that involve designing and testing of "breakthrough" and "improvement" innovative technologies. Breakthrough technologies include the digital substation technologies, technologies for building electric equipment based on high-temperature superconductivity (of cables, fault current limiters, etc.), multi-agent control systems, and electricity storage technologies.

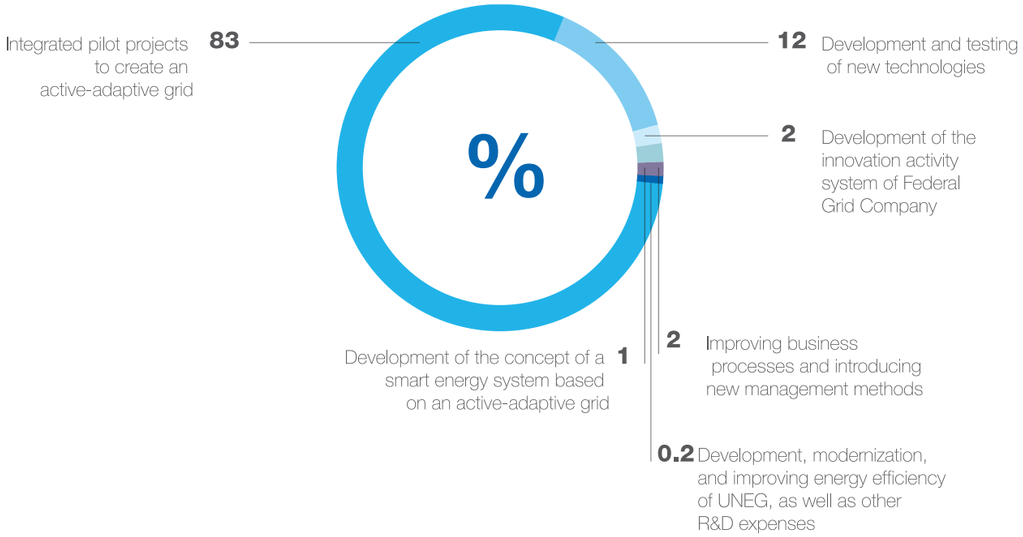
The target of the R&D Programme is creating a technological basis for a smart energy system with an active-adaptive grid (smart grid). The main areas of the R&D activities of the Company for the period covered by the Programme are:

- Development of the concept of a smart energy system based on an active-adaptive grid
- New types of electric power equipment for substations and electricity transmission lines for the smart grid

R&D funding trend for 2009-2013, RUB bn



Innovation activity cost structure for 2013 by section of the Federal Grid's investment programme for 2010–2014



- New types of control, automation, protection, and measurement system mechanisms for the smart grid
- Smart grid control systems
- Systems for monitoring and protection of electric grids from external forces
- Development, modernisation, and improved energy efficiency

In accordance with the investment programme, in 2013 our Company allocated RUB1.7 billion to the R&D Programme, which is 1.1% of the Federal Grid revenue. The decrease in funding for R&D relative to the previous year is due to the adjustment of the investment programme in connection to the changes in tariff increase scenario for electricity transmission services as well as the aforementioned focus on testing and implementation of innovative solutions.

Under the R&D Programme, in 2013 we obtained 32 utility model patents (including 3 international patents) and 8 invention patents.

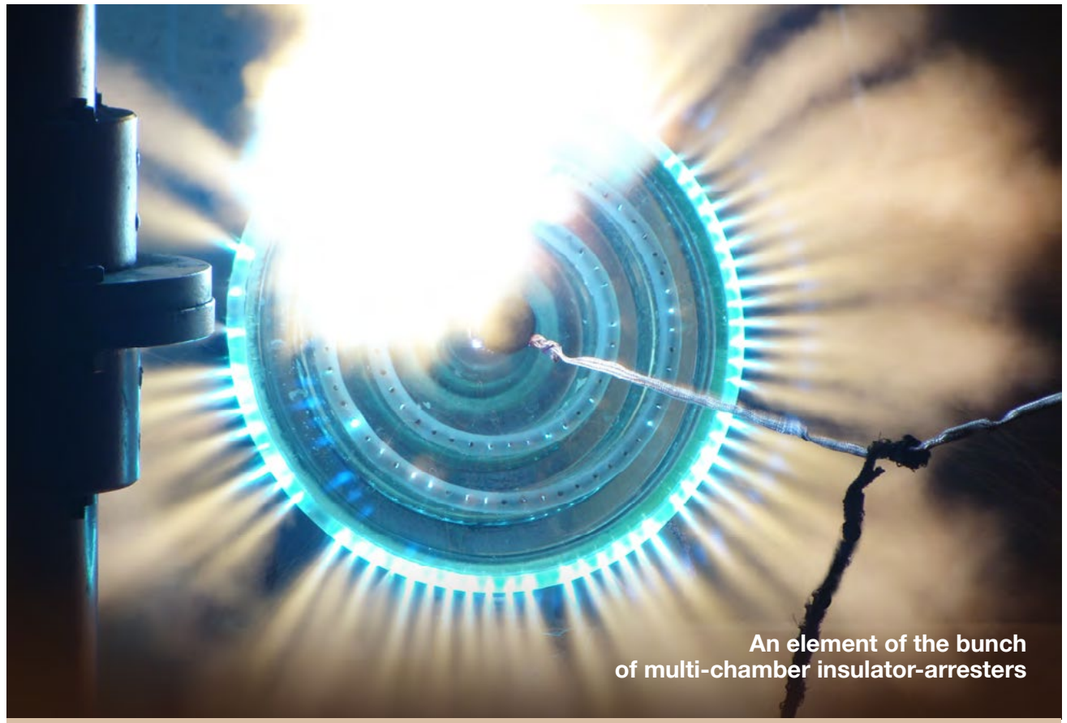
Detailed information on the R&D projects completed in 2013 is provided in Appendix to the annual report **on the memory stick attached**.

To overcome the limitations of funding in future years, we plan to address the following:

1. Growing the quality and efficiency of the planning and implementation of the R&D Programme in order to offset the decline in the resources allocated by the Company's Investment Programme and to focus on the most advanced and the most critical areas of innovation activity.

2. Mainstreaming "open innovation" tools to work with our partners on the Federal Grid innovation development, including:

- growing the quality and efficiency of managing the requirements for the creation and production of the necessary innovative technologies and solutions by the Company's partners (with the subsequent purchase and use of those solutions);
- exploring the options to create a corporate R&D Fund to support promising developments and technologies, including those developed by universities, research and design organisations, and innovative small and medium enterprises;
- development and promotion of public documents and Internet resources on the subject of innovation development of the Company, targeting its partners and contractors, reflecting the goals, objectives, key requirements and technologies, and other important information regarding modernisation of UNEG, creation of smart grids, and other areas of the Company's innovation development;
- ensuring further development of the tools of innovative competency centres created with the participation or support of the Company at university laboratories, departments, and faculties, small innovative subsidiary enterprises of universities, and innovation competitions;
- developing the mechanisms for cooperation between the public and private sectors;
- development of tools to manage the knowledge, competencies, and the Company's production base, in order to maximise the use of internal innovative development resources.



An element of the bunch of multi-chamber insulator-arresters

In 2013, Federal Grid completed a three-year pilot testing of bunches of multi-chamber insulator-arresters that are radically new devices for the protection of power transmission lines during thunderstorms. Application of this novel device will minimise power outages caused by thunderstorms, eliminating the need for a grounding wire and thus reducing the Company's operating costs.

Management's Discussion and Analysis

	2013 TARGET	2013 ACTUAL	2014 TARGET
Adjusted EBITDA, RUB mln	91,037	96,296	91,543
Financial leverage	0.38	0.44	0.41
Efficiency of Cost Management Programme, %	10.0	13.8	15.0

The following review of the financial position and results of operations of Federal Grid Company as of 31 December 2013 should be considered in conjunction with our RAS financial statements for the year 2013 and the notes thereto.

Forward-looking statements

This report contains forward-looking statements regarding the financial position and results of operations of Federal Grid Company and its consolidated entities. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are statements of future expectations based on the management's current views and assumptions that are subject to risks and uncertainties that could cause actual results and events to differ materially from those expressed in or implied by these forward-looking statements.

Forward-looking statements include, among other things, statements of possible market risks that may affect our business and statements of the management's expectations, predictions, estimates, forecasts, plans and assumptions. Such forward-looking statements can be identified by the use of conditional or forward-looking terminology such as "imply", "anticipate", "assume", "may", "estimate", "expects", "intend", "could be", "plan", "goals", "view", "likely", "project", "will", "strive", "achieve", "risks", "tasks", "should" or similar words and expressions.

There are a number of factors that could affect our future activities and cause actual results to differ materially from those contained in the forward-looking statements, including but not limited to: (a) environmental and financial risks; (b) change in demand for the Company's products; (c) change in currency exchange rates; (d) risks associated with failure to find appropriate property and assets for acquisition and to succeed in negotiations and complete such transactions; (e) reserve evaluation; (f) loss of market share and industry competition; (g) economical and financial market conditions in various countries and regions; (h) political risks, delay or acceleration of project implementation, cost estimation; and (i) change in trade conditions.

1. Overview

As of 31 December 2013, Federal Grid Company has regional branches, including: eight backbone electric grids (MES); 41 backbone electric grid enterprises (PMES); one branch – Special-purpose Production Centre Bely Rast; one branch –Technical Supervision Centre.

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

The Company's financial management is accomplished through financial plans differentiated by planning horizons:

- A long-term programme of activities is developed for a long-term period; long-term planning involves identifying focus areas for implementation of the Government's policy with respect to managing UNEG and elaboration of Federal Grid's strategic plans given the acceptable level of financial risks and maintaining the Company's financial stability.

- Federal Grid's mid-term business plan is developed with a five-year planning horizon and a one-year planning interval.

- Short-term planning implies annual budgeting of Federal Grid Company.

Our financial performance in 2013 reflects both internal and external factors affecting our operational results, including:

1. Implementation of a cost management programme that ensures reduction of the Company's operating expenses.

2. A write-off of negative differences from the mark-to-market revaluation of quoted securities (mainly shares of JSC Inter RAO UES).

3. Accrual of provisions for the impairment of financial investments not subject to mark-to-market revaluation (promissory notes issued by Energo-Finance LLC).

4. A negative balance of accrual/reversal of provision for doubtful debts (mainly owing to the mark-to-market revaluation of shares on the books of Energy–FGC LLC and interests accrued on the promissory notes of Energo-Finance LLC).

5. Reporting the results of property, plant and equipment revaluation.

The increase in revenues by RUB16,515 million was primarily due to transmission tariff growth and the increase in rates for electricity loss compensation. Furthermore, there was an increase in revenues from grid repair and maintenance services, technical supervision services and property lease. However, the revenues from technological connection to UNEG decreased by RUB91 million.

As of the end of the reporting year, Federal Grid Company incurred a loss of RUB25,898 million following the revaluation of financial assets and the provisions for doubtful debts and impairment of financial investments.

Adjusted net profit (excluding non-cash expenses related to provisions for doubtful debts and revaluation of fixed assets) in 2013 was RUB16,758 million, which exceeded the amount of the previous year by RUB3,375 million. The increase was mainly due to higher operating earnings resulting from the Company's cost-saving initiatives.

Federal Grid makes considerable investments in fixed assets to provide for the development and reliable operation of UNEG. In 2013, expenditures on construction, re-construction and renovation of the Company's property, plant and equipment amounted to RUB149,696 million, including VAT.

In 2013, the Company financed its investments from the following sources:

- Electricity transmission tariffs – 45.8%

- Borrowings, including federal budget funds and funds raised through infrastructure bond placement – 42.0%

- VAT refund – 4.8%

- Other sources (including payment for technological connections) – 7.4%.

Federal Grid Company is characterised as a financially sound company with a high level of liquidity and solvency and a low level of financial dependence.

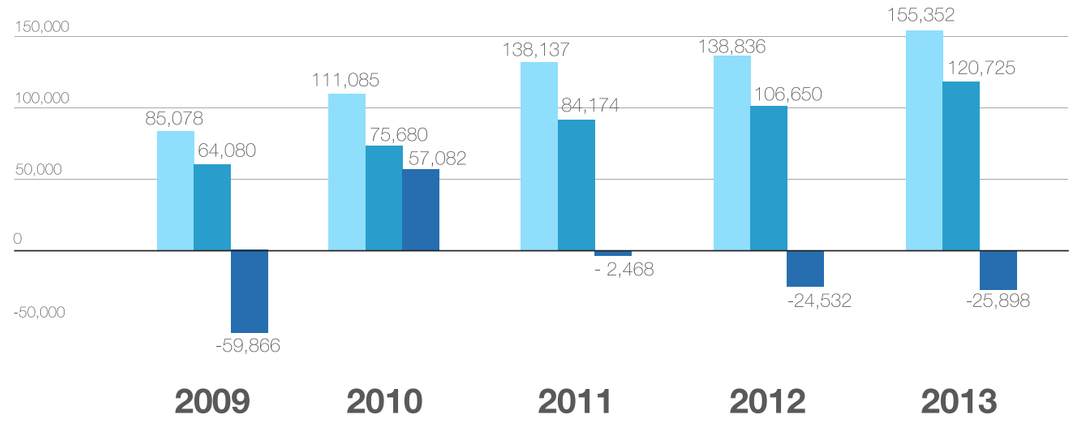
2. Financial Performance

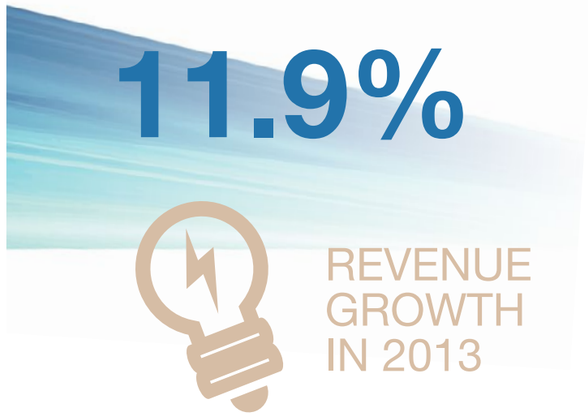
Corporate key financial performance indicators in 2009–2013, RUB million

Income and expenses relating to ordinary operations	2009	2010	2011	2012	2013	Change in 2013	Change in 2013, %	2014 forecast
Revenues, including:	85,078	111,085	138,137	138,836	155,352	16,515	11.9%	161,714
Electric power transmission services	80,173	109,510	134,875	136,581	152,710	16,128	11.8%	157,212
Other operations	4,904	1,574	3,261	2,255	2,642	387	17.2%	4,502
Production cost, including:	–64,080	–75,680	–84,174	–106,650	–120,725	–14,075	–13.2%	–135,660
Electric power transmission services	–62,732	–74,856	–83,201	–105,639	–119,468	–13,829	–13.1%	– 134,785
Other operations	–1,348	–824	–973	–1,011	–1,257	–246	–24.3%	– 875
Management expenses	–5,128	–6,821	–8,726	–9,860	–12,223	–2,363	–24.0%	– 14,571
Sales profit	15,870	28,584	45,236	22,326	22,404	77	0.4%	11,484
Other income*	113,770	150,765	175,670	113,556	61,125	–52,431	–46.2%	8,916
Other expenses**	–183,689	–112,037	–209,463	–150,152	–101, 201	48,952	32.6%	–5,430
Profit (loss) before tax	–54,049	67,312	11,444	–14,270	–17,672	–3,402	–23.8%	14,970
Deferred tax assets	–180	–33	46	–55	1,776	1,831		–
Deferred tax liabilities	–722	–1,181	–5,545	–8,736	–9,977	–1,241	–14.2%	– 11,216
Current profit tax	–4,876	–9,264	–8,390	–1,471	–	–1,471	–	– 77
Other similar mandatory payments	–5	43	–3	–0.3	–5	–5	–	–
Profit tax adjustment for the previous periods	–34	206	–21	–	–20	–20	–	–
Net profit (loss) for the period	–59,866	57,082	–2,468	–24,532	–25,898	–1,365	–5.57%	3,677
Adjusted net profit	9,427	25,702	33,687	13,383	16,758	3,375	25.22%	

** Other income includes income from participation in other organisations and interests receivable*
*** Other expenses include interests payable*

Revenues, expenses and net profit in 2009–2013, RUB million





2.1. Revenues

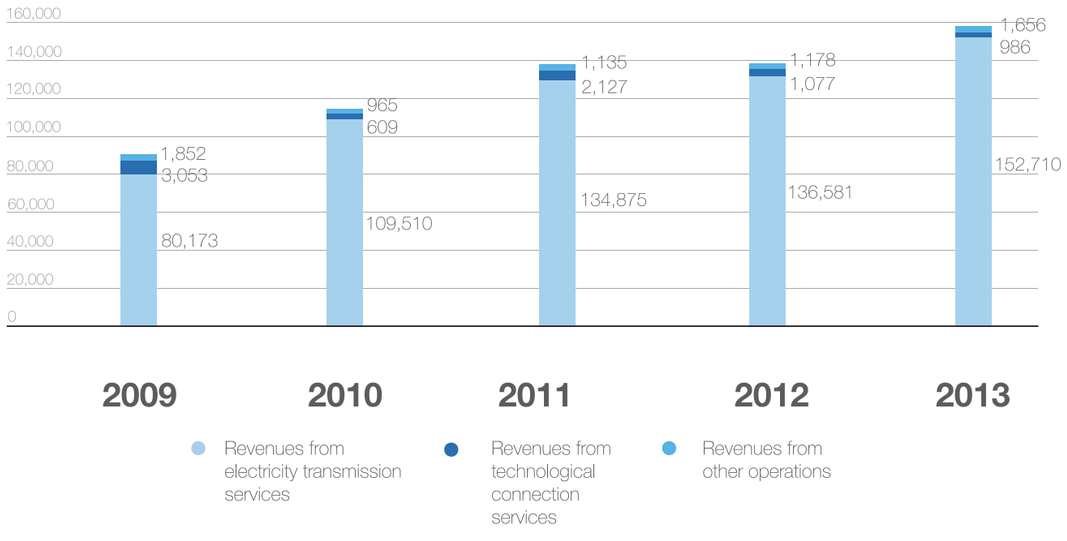
During 2009–2013, Federal Grid Company demonstrated a sustainable growth in revenues. In 2013, the rate of revenue growth increased considerably compared to 2012 – from 0.5 to 11.9%.

This growth was primarily due to the increase in revenue from electricity transmission services.

Revenue structure in 2009–2013, RUB million

	2009	2010	2011	2012	2013	Change in 2013	Change in 2013, %
Revenues	**85,078**	**111,085**	**138,137**	**138,836**	**155,352**	**16,515**	**11.9%**
Revenues from electricity transmission services, including:	**80,173**	**109,510**	**134,875**	**136,581**	**152,710**	**16,128**	**11.8%**
Payments for the maintenance of UNEG grid facilities	66,681	94,950	120,994	125,672	139,075	13,403	10.7%
Payments for normative electricity losses	13,492	14,561	13,882	10,910	13,634	2,725	25.0%
Revenues from technological connection services	**3,053**	**609**	**2,127**	**1,077**	**986**	**–91**	**–8.5%**
Revenues from other operations	**1,852**	**965**	**1,135**	**1,178**	**1,656**	**478**	**40.6%**

Revenues in 2009–2013, RUB million



In 2013, revenues generated by the Company's core regulated operations (excluding revenues from technological connections) made up 98.3% of the Company's total revenues.

Compared to 2012, revenues generated by electricity transmission services in 2013 grew by RUB16,129 million, including:

- a RUB13,403 million increase in revenues related to grid maintenance, mainly owing to a 9.4% growth in tariffs for electricity transmission through UNEG since 01.07.2012, as well as the increase in the volume of services provided;
- a RUB2,725 million increase in revenues for compensation of normative losses, owing to an increase in transmission volumes and tariff indexation since 1 January 2013;
- revenues from connection services decreased owing to a reduction in the scope and cost of work under contracts in 2013 as compared to 2012;
- a RUB478 million increase in revenues from other operations was due to an increase in demand for grid repair and maintenance services, technical supervision services and property leasing.

2.2. Cost

Cost of services rendered by Federal Grid Company in 2013 (excluding management expenses) increased by RUB14,075 million compared to the previous year. The increase was primarily due to increases in depreciation and amortisation charges, wages, salaries and social security contributions.

Cost of services in 2009–2013, RUB million

Cost elements	2009	2010	2011	2012	2013	Change in 2013	Change in 2013, %
Depreciation of property, plant and equipment	22,562	31,727	39,784	58,993	69,669	10,676	18.1%
Purchase of electricity and capacity	13,433	14,183	12,183	11,662	12,285	622	5.3%
Labour costs and social security contributions	7,028	13,926	15,836	18,103	20,244	2,141	11.8%
Repair and maintenance services	14,127	5,984	5,291	5,446	5,464	18	0.3%
Expenses on raw and other materials	410	2,246	2,424	2,702	3,147	445	16.4%
Property insurance costs	1,094	849	848	894	975	81	9.1%
Lease costs	772	926	1,092	1,190	1,223	33	2.8%
Security costs	766	1,105	1,527	1,693	1,862	169	10.0%
Electricity transmission services	422	784	1329	1,741	1,728	–13	–0.7%
Other expenses	3,466	3,950	3,859	4,226	4,128	–98	–2.3%
Total cost	**64,080**	**75,680**	**84,174**	**106,650**	**120,725**	**14,075**	**13.2%**

2.2.1. Depreciation of property, plant and equipment

An increase of 18% in depreciation expenses for 2013 compared with 2012 was due to an accrued depreciation for facilities commissioned within the Company's investment programme and the revaluation of fixed assets.

2.2.2. Purchase of electricity and capacity

In 2013, costs for purchasing electricity and capacity increased by 5% compared to the previous year, owing to an increase in the volume of electricity purchased on WECM to compensate for transmission losses.

2.2.3. Labour costs and social security contributions

An increase of 12% in labour costs and social security contributions was due to the following reasons:

- an increase in the number of employees engaged to ensure the operation of the commissioned electric grid facilities;
- a quarterly indexation of wages for operational personnel in accordance with the actual consumer price growth based on the Tariff Agreement and the policy of maintaining employee income levels;
- an increase in insurance premiums.

2.2.4. Repair and Maintenance

Despite an increase in facility maintenance, the related costs in 2013 remained at the 2012 level because of the Company's cost-saving programme.

2.2.5. Expenses of Raw and other Materials

In 2013, an increase in the expenses of raw and other materials was 16.4% compared to 2012, owing to price increases for raw and other materials, transport fuel (because of inflation) and increase in expenses for working clothes because of an increase in the size of the workforce.

2.2.6. Property Insurance Costs

In 2013, property insurance costs increased by 9%, owing to an expansion of the list of insured production facilities.

2.2.7. Lease Expenses

In 2013, lease expenses increased by 3% compared to 2012. The increase was primarily due to lease payment growth under the contracts for utilising electric grid facilities, an increase in lease expenses for commissioned wireless communication networks property and land lease payment growth related to tariff indexation by local authorities.

2.2.8. Security Costs

An increase of 10% in security costs in 2013 compared to 2012 was due to an increase in the number of protected facilities, stepping up physical security measures, implementation of the Integrated Automated Security Management System (IASMS) at the Company's power facilities and the Unified Security Control Centre and to the implementation of the programme aimed at protecting the UNEG facilities against terrorism.

2.2.9. Electricity Transmission Costs

In 2013, electricity transmission costs remained at the 2012 level – the deviation was a mere 0.7%. It was due to a decrease in electric energy cross-flow through the electric grids of Kazakhstan.

2.2.10. Other expenses

A decrease of 2.3% in other expenses in 2013 was due to the implementation of the Company's cost-saving programme.

2.3. Cost optimisation

The Cost Management Programme has been running in our Company since 2010. It is aimed at reducing Federal Grid's expenses through reducing prices for contractors' works and implementing competitive procurement procedures, while maintaining actual work volumes.

The total saving of the Cost Management Programme for 2013 was RUB 4,540 million. (excluding the energy-saving programme).

Federal Grid's Energy Saving and Energy Efficiency Programme involves measures aimed at reducing energy losses. In 2013, the Company fully implemented measures to reduce losses within UNEG grids. The total economic effect of measures implemented within the Energy Saving and Energy Efficiency Programme in 2013 was RUB 108.85 million (excluding VAT).

In 2014, Federal Grid Company will continue to reduce operating and investment expenses. In conditions of limited opportunities to improve Company performance, owing to external factors of pricing, a key challenge is to increase internal efficiency and ensure profitability at the required level by optimising internal business processes. This task was emphasised in the Strategy of the Electric Grid Complex Development of the Russian Federation and the Plan of Measures to Limit the Final Cost of Goods and Services of Infrastructure Companies.

Reduction in operating expenses, %

Item	2010	2011	2012	2013
Reduction in expenses resulting from the Cost Management Programme/calculation basis (total operating expenses for 2010)	6.1%	6.4%	6.6%	13.8%

2.4. Management Expenses

In 2013, management expenses increased by 24%, which was primarily due to a RUB2,349 million increase in property tax payments.

Management Expenses in 2012–2013, RUB million

Cost elements	2012	% of total	2013	% of total	Change, %
Labour costs and social security contributions	2,246	22.8%	2,328	19.0%	3.7%
Insurance premiums	309	3.1%	357	2.9%	15.5%
Information services and software costs	1,250	12.7%	1,480	12.1%	18.4%
Depreciation of property, plant and equipment and amortisation of intangible assets	1,248	12.7%	1,175	9.6%	–5.8%
Property tax	1,287	13.1%	3,636	29.7%	182.5%
General production services	765	7.8%	686	5.6%	–10.3%
Material expenses	392	4.0%	459	3.8%	17.2%
Lease costs	668	6.8%	723	5.9%	8.2%
Insurance costs	7	0.1%	8	0.1%	13.8%
Security costs	52	0.5%	56	0.5%	7.6%
Communication services	367	3.7%	373	3.1%	1.5%
Consulting services	116	1.2%	124	1.0%	7.2%
R&D costs	143	1.4%	61	0.5%	–57.2%
Other management expenses	1,011	10.2%	757	6.2%	–25.1%
Total	**9,860**	**100%**	**12,223**	**100%**	**24.0%**

In 2013, the increase of management expenses (excluding property tax growth resulting from the phased cancellation from 01.01.2013 of tax benefits for owning power transmission line property in accordance with the Federal Law "On Introducing Amendments to the Second Part of the Tax Code of the Russian Federation" No. 202-FZ dated 29.11.2012) was a mere 0.17%. The level of 2012 was retained due to the Company's measures on reducing administrative and management expenses.

2.4.1. Labour costs and Social Security Contributions

In 2013, our labour costs increased by 3.7% compared to 2012. This was mainly due to changing the organisational structure of the Company's Executive Office.

2.4.2. . Insurance Premiums

Insurance premiums increased by 15.5% in 2013, owing to changes in the legislation related to an increase in the normative base for insurance premiums taxable at the rate of 30% from RUB512 thousand to RUB568 thousand.

2.4.3. Information Services and Software Costs

Costs for information services increased by 18.4% in 2013, owing to the implementation of new and the upgrading of existing software systems.

2.4.4. Depreciation of Fixed Assets and Amortisation of Intangible Assets

In 2013, depreciation/amortisation expenses decreased by 5.8% compared with 2012.

2.4.5. Property Tax

Property tax increased almost threefold compared to 2012, owing to the phased cancellation, from 01.01.2013, of tax benefits for power transmission lines property. In accordance with Federal Grid Company's accounting policy, property tax expenses for the whole Company are recorded in management expenses.

2.4.6. General Production Services

Costs for general production services decreased by 10.3% as a result of cost optimisation for legal services, transportation and advertising.

2.4.7. Material Expenses

A growth of 17.2% in material expenses compared to 2012 was prompted by an increase in maintenance costs for the backup data processing centre, intercom telephony and video-conferencing.

2.4.8. Lease Costs

In 2013, lease costs increased by 8.2% compared to 2012, owing to changes of lease contract conditions and indexation of land lease rates.

2.4.9. Insurance Costs

A growth of 13.8% in insurance costs compared to 2012 was due to an increase in costs for civil liability insurance.

2.4.10. Communication Services

In 2013, costs for communication services increased by 1.5%, owing to tariff indexation by communications service providers and the Company's commissioning new satellite communication systems.

2.4.11. Consulting Services

Costs for consulting services increased by 7.2% because of the entry into a contract for rendering services on implementing control regulations over transfer pricing in the Federal Grid Company's Group.

2.4.12. R&D Costs

R&D costs decreased by 57.2% compared to 2012, owing to a one-time write-off of R&D with a positive result, on which patents were not issued.

2.4.13. Other management expenses

For 2013, other management expenses decreased by 25.1% compared to 2012. This decrease mainly arose from the cost optimisation driven by the implementation of the Company's Cost Management Programme.

2.5. Profit on Sales

In 2013, profit on sales from core operations increased slightly – by 0.4%.

2.6. Interest receivable and interest payable

"Interest receivable" refers to income from investment, including income from the placement of available funds in bank and deposit accounts. In 2013, interest income increased by 19% compared to 2012, owing to measures aimed at improving the Company's current assets management efficiency, which generated additional revenues of RUB801 million.

In the income statement for 2013, we reported interest payable of RUB1,448 million, which was not recorded in 2012. Part of the funds received from the infrastructure bond placement in 2013 is earmarked to finance the Company's investment programme in subsequent periods. In accordance with the Company's accounting policy, interests on borrowings are capitalised as part of the cost of fixed assets in case they are allocated to finance the Company's investment programme.

2.7. Other income

The Company's other income decreased by RUB53,169 million, owing to payment of promissory notes and reducing the amounts of reversed provisions for doubtful debts.

Composition of Other Income in 2012–2013, RUB million

Description	2012	2013	Change in 2013	Change in 2013, %
Payment of promissory notes	96,735	49,317	–47,418	–49.0%
Income from reversal of provision for doubtful debts	9,378	2,269	–7,109	–75.8%
Income from reversal of provision for financial investments	38	29	–9	–24.2%
Extraordinary income from insured events	97	437	340	352.7%
Income from revaluation of fixed assets	414	915	501	120.8%
Other income	2,515	3,041	526	20.9%
Total	**109,176**	**56,007**	**–53,169**	**–48.7%**

2.8. Other Expenses

The Company's other expenses decreased by RUB 50,400 million, owing to a reduction in costs for payment of promissory notes and provision for impairment of financial investments.

Composition of Other Expenses, RUB million

Description	2012	2013	Change in 2013	Change in 2013, %
Payment of promissory notes	96,735	49,317	–47 418	–49,0%
Provision for doubtful debts	19,355	21,714	2,359	12.2%
Provision for impairment of financial investments	9,564	659	–8,905	–93.1%
Net book value of written-off fixed assets and construction in progress, and the cost of writing-off	1,735	1,401	–334	–19.3%
Provision for impairment of inventories	209	216	7	3.5%
Costs of revaluation of fixed assets	1,795	1,416	–378	–21.1%
Negative difference from the mark-to-market revaluation of shares	17,031	22,079	5,049	29.6%
Others	3,728	2,949	–780	–20.9%
Total	**150,152**	**99,752**	**–50,400**	**–33.6%**

2.9. Gain/Loss from disposal of investments

In 2013, the Company entered into promissory note purchase and sale transactions in the amount of RUB49,317 million, which is RUB47,418 million less than the amount of similar transactions in 2012.

2.10. Revaluation of financial investments

In 2013, a negative difference from the mark-to-market revaluation of shares (mainly shares of JSC Inter RAO UES) in the amount of RUB22,079 million was reported in other expenses.

In addition, in 2013, we reported a negative balance of accrual/reversal of provisions for impairment of financial investments not subject to mark-to-market revaluation in the amount of RUB630 million, including: RUB72 million for Energo-Finance LLC promissory notes; RUB296.5 million for JSC IDGC of Northern Caucasus promissory notes; and RUB290.4 million for equity investments in shares of subsidiaries and associates (JSC Nurenergo, JSC Mobile Gas Turbine Power Plant, JSC Tomsk Trunk Grids and JSC Kuban Trunk Grids).

2.11. Provision for doubtful debts (for impairment of receivables and advances paid)

Upon the analysis of receivables by age group and probability of collection, an accrual/reversal of provisions for doubtful debts was made in 2013. A negative balance from the above operations is RUB19,445 million, including RUB9,983 million for Index Energetiki – FGC UES LLC promissory notes (through a mark-to-market valuation of shares which are on the Company's balance), RUB1,617 million – provision for accrued interests on Energo-Finance promissory notes and service contracts for electricity transmission through UNEG (JSC Lenenergo, JSC Yantarenergo, JSC Kubanenergo, JSC Far Eastern Distribution Grid Company, JSC IDGR South and JSC Dagenergoset.

2.12. Current income tax

The Company has no income tax liability for 2013; in 2012, the total amount of income tax was RUB1,471 million. The change was mainly due to an increase in depreciation/amortisation charges, which are deductible in tax accounting.

2.13. Net profit (loss) in the reporting period

For 2013, Federal Grid Company recorded a loss in the amount of RUB25,898 million (in 2012 the amount of loss was RUB24,532 million). The loss occurred because of the following factors:

- recognition of a loss on mark-to-market revaluation of shares (mainly JSC Inter RAO shares) in the amount of RUB22,079 million;
- a negative balance of accrual/reversal of provision for doubtful debts in the amount of RUB19,445 million, owing to the mark-to-market revaluation of shares on the books of Index of Energy–FGC LLC, interests accrued on the promissory notes of Energo-Finance LLC and on service contracts for electricity transmission through UNEG;
- a negative balance of accrual/reversal of provision for impairment of financial investments not subject to mark-to-market revaluation in the amount of RUB630 million, including Energo-Finance LLC promissory notes, JSC IDGR Northern Caucasus and equity investments in subsidiaries and associates;
- recognition of a loss on revaluation of property, plant and equipment in the amount of RUB501 million.

Net Profit Distribution in 2009–2013, RUB million

Item	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Retained earnings (loss) in the reported period:	–59,866	58,088	–2,468	–24,532	–25,898
Allocate to:					
Reserve Fund	—	2,904	—	—	—
Development	—	18,578	—	—	—
Cover of losses of previous years, remuneration to the Board of Directors	—	34,028	—	—	—
Dividends	—	2,578	—	—	—

3. Cash Flow

3.1. General information on the Company's cash flow from core, investment and financial operations

As at 31 December 2013, the Company's cash balance was RUB14,332 million, which is RUB3,196 million less than on 31 December 2012.

The following analysis of receipts and payments was made based on the Company's cash flow statements with due account being taken of mutually exclusive turnovers on deposits and terminated contracts for providing electricity transmission services.

Cash flows in 2012–2013, RUB million

	Total		By type of activities					
			Operating		Investment		Financial	
	2012	2013	2012	2013	2012	2013	2012	2013
Receipts	313,794	325,765	167,696	182,830	61,475	22,594	84,623	120,341
Payments	313,513	328,961	67,220	74,449	234,639	189,795	11,654	64,717
Balance	281	–3,196	100,476	108,381	–173,164	–167,201	72,969	55,624

An actual volume of receipts in 2013 was RUB325,765 million, which exceeds the receipt value of 2012 by RUB11,971 million.

Actual payments in 2013 increased by RUB15,448 million to RUB328,961 million compared to 2012.

3.2. Net cash from operating activities

Cash receipts from operating activities in 2013 increased by RUB15,134 million compared to 2012. The increase was primarily due to revenue from rendering the electricity transmission services.

In 2013, payments within operating activities exceeded payments in 2012 by RUB7,229 million, including an increase in VAT payment by RUB2,284 million, property tax payment by RUB1,865 million, payments to cover electricity transmission losses by RUB794 million and payments for operating expenses by RUB2,286 million.

3.3. Net cash used in investment activities

In 2013, cash receipts from investment activities decreased by RUB38,881 million compared to 2012. The high value in 2012 was due to receipts from the disposal of short-term financial investments (promissory notes).

Payments from investment activities in 2013 decreased by RUB44,844 million compared to payments in 2012, which was mainly due to a reduction in the amount of financing from the Company's investment programme.

4. Financial Position

4.1. Assets and liabilities

The balance sheet ratios suggest that the tendency of asset growth is preserved. For the year ended 31 December 2013, the Company's total assets exceeded the relevant amount in 2012 by 8%, because of the following:

- an increase of 8% in the value of non-current assets, owing to large-scale investments in the construction of fixed assets commissioned in 2013 as part of the Company's investment programme, and a decrease in investments resulting from the mark-to-market revaluation;

- an increase of 9.3% in current assets, owing to an increase in stocks of raw and other materials, and an increase in short-term financial investments upon allocating a cash balance not used in 2013 and received from an infrastructure bond placement. As at 31 December 2013, the asset structure has not changed compared to 31 December 2012: the shares of non-current and current assets were 90% and 10%, respectively.

As at 31 December 2013, the Company's equity decreased by 0.7%, owing to the recognition of a loss at the end of 2013 in the amount of RUB25,898 million. At the same time, in 2013, the Company's authorised capital was increased by RUB3,247 million by registration of an additional share issue of 2012, and the fixed assets value increased by RUB15,398 million upon annual revaluation.

As at 31 December 2013, the following changes occurred in the aggregate liabilities structure compared to the structure as at 31 December 2012: the share of equity capital decreased from 76 to 70% and the share of aggregate liabilities increased from 24 to 30%.

The total value of long-term liabilities increased by RUB73,068 million as at 31 December 2013 compared to that value as at 31 December 2012. The increase was due to the following:

- an increase of RUB64,850 million in long-term credits and loans resulting from attracting the amount of RUB110,000 million through corporate bond placement, including infrastructure bonds for RUB100,000 million; JSC Gazprombank credit repayment in the amount of RUB35,000 million; and transforming the short-term liabilities into long-term ones;

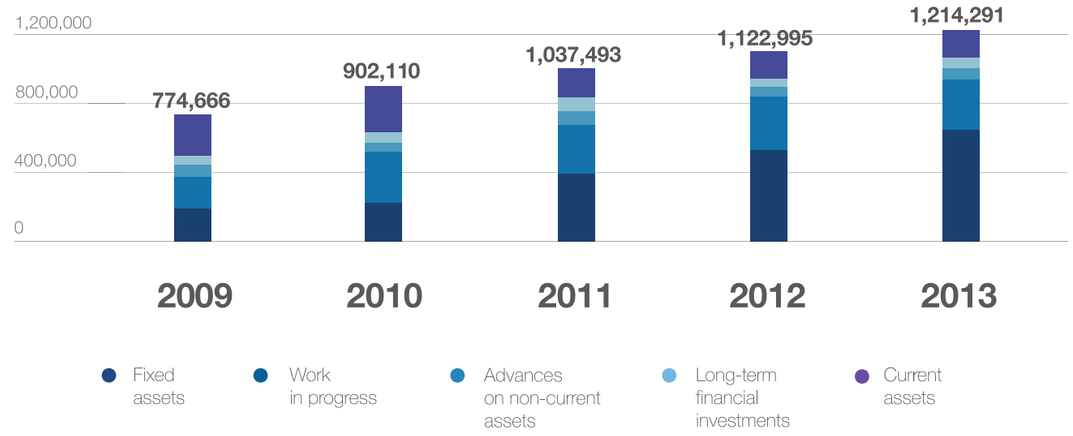
- an increase in deferred tax liabilities of RUB8,201 million.

Key indicators of property, equity and liabilities for 2009–2013, RUB million

	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Total assets	**746,667**	**902,110**	**1,037,493**	**1,122,995**	**1,214,291**
Non-current assets value	588,425	767,152	919,501	1,011,667	1,092,629
Current assets value	158,242	134,958	117,992	111,329	121,662
Total liabilities	**746,667**	**902,110**	**1,037,493**	**1,122,995**	**1,214,291**
Shareholders' equity	665,436	794,192	853,079	849,125	842,975
Long-term liabilities	7,440	52,668	138,054	209,361	282,429
Short-term liabilities	73,791	55,250	46,360	64,509	88,887

An increase of RUB24,653 million in short-term liabilities mainly reflected an increase of RUB18,034 million in accounts payable to suppliers and contractors and an increase of RUB6,398 million in short-term credits and loans.

Asset structure in 2009–2013, RUB million



According to the accounting statements for 2013, the Company's net asset value decreased by RUB6,425 million, and by RUB5,916 million according to the evaluation with account to contributions to the authorised capital.

Net asset value in 2009–2013, RUB million

Indicator	2009		2010		2011		2012		2013	
	Nominal*	With account to contributions to the authorised capital **	Nominal*	With account to contributions to the authorised capital **	Nominal*	With account to contributions to the authorised capital **	Nominal*	With account to contributions to the authorised capital **	Nominal*	With account to contributions to the authorised capital **
Net asset value	665,714	705,892	794,470	805,617	853,354	855,573	849,400	852,647	842,975	846,731

**Evaluation on the basis of annual accounts with retrospective adjustment.*

*** In 2009 and 2013, the authorised capital of Federal Grid Company was increased through an additional share issue. It led to the reporting of accounts payable to the shareholders on their contributions to the authorised capital in the Company's accounting statements. Upon registration of the placement report with the Russian FFMS, these accounts will be included in the Federal Grid Company's authorised capital. An evaluation of net asset value was made with regard to this inclusion: in the amount of RUB 40,177.9 million for 2009, RUB 11,194 million for 2010, RUB 2,219 million for 2011, RUB 3,247 million for 2012 and RUB 3,762 million for 2013.*

4.2. Financial indicators in 2009-2013

Indicator	2009	2010	2011	2012	2013	2014 forecast
Liquidity indicators						
Absolute liquidity ratio	2.43	1.32	1.02	0.69	0.68	0.12
Quick asset ratio	4.02	2.74	2.27	1.60	1.30	0.73
Current liquidity ratio	4.15	2.90	2.56	1.76	1.43	0.86
Financial soundness indicators						
Equity to total assets ratio	0.83	0.88	0.82	0.76	0.70	0.71
Total debt/EBITDA*	0.04	0.7	1.3	2.4	2.8	2.7
Current assets coverage ratio	0.66	0.61	0.57	0.41	0.30	0.26
Profitability indicators						
Return on equity (ROE)*	1.4%	3.3%	4.1%	1.6%	2.0%	0.001%
Return on total assets (ROTA)*, on income before tax	2.0%	3.4%	4.4%	1.3%	2.8%	0.93%
EBITDA margin*	47.5%	60.7%	61.3%	59.7%	62.0%	56.6%
Business activity indicators						
Receivables/payables growth ratio	2.17	1.27	1.45	1.47	1.16	1.27
Total receivables/payables ratio	1.11	1.48	1.42	1.52	0.92	1.85
Most liquid receivables/payables ratio	0.83	0.62	0.51	1.12	0.53	2.31

** To calculate this indicator EBITDA (net profit, income before tax) includes no external factors that affect the Company's management competency.*

Actual liquidity ratios as at 31 December 2013 are within standard values. It proves the Company's ability to discharge its short-term liabilities by using its current assets.

Equity to total assets ratio proves that the Company's dependence on external loans is within a normal range, the risk of insolvency is low, and there is no cash deficiency risk.

An increase in profitability ratios is due to an increase in the Company's adjusted net profit as of the end of 2013 compared to 2012.

Federal Grid Company is characterised as a financially sound company with a high level of liquidity and solvency and low level of financial dependence.

5. Tariff regulation

5.1. Federal Grid Company's Tariff Policy

Tariffs for electricity transmission services are subject to state regulation and are approved by the Federal Tariff Service (FTS).

The list of basic legislative acts regulating the tariff setting for electricity transmission over UNEG is given in Appendix to the Annual Report **on the memory stick attached**.

In 2010, measures were taken to improve the investment attractiveness of the electric power industry, and a new method for a return on invested capital (RAB regulation) was introduced to set electricity transmission tariffs.

To calculate tariffs for each year of the regulatory period, the required gross revenue is determined by summing a return value, return on invested capital and expenses required to provide services on electricity transmission through UNEG. In order to avoid a sharp increase in tariff rates the RAB-based method provides a smooth-running mechanism, which involves redistributing the required gross revenue during the long-term regulatory period.

The gross revenue required for electricity transmission services in 2009–2013

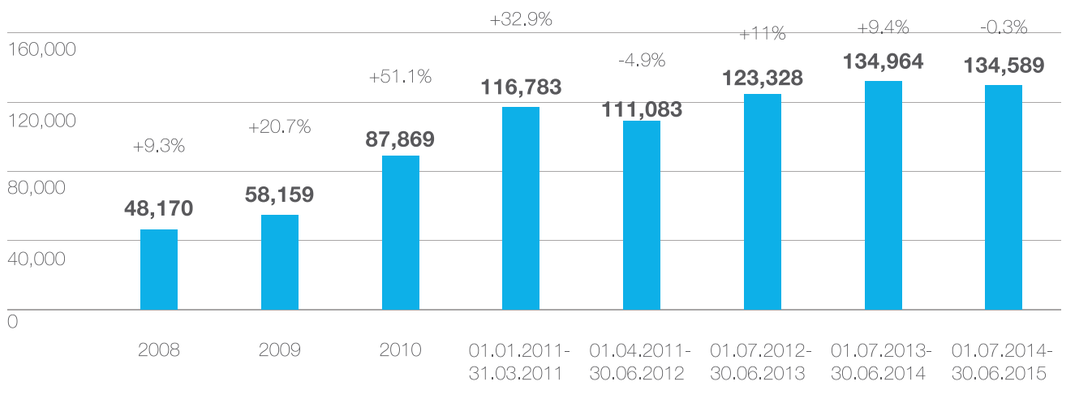
	2009	2010	2011	2012	2013
The required gross revenue of Federal Grid Company approved by the FTS, RUB mln	66,047	93,781	118,509	125,770	141,908
Increase, %	—	142.0	126.4	106.1	112.8

Key long-term parameters for Federal Grid's RAB regulation approved by the FTS for 2010–2014 regulatory periods

Indicator	2010	2011	2012	2013	2014
Rate of return for capital invested before 01.01.2010, %*	39	5.2	6.5	7.8	10
Rate of return for capital invested after 01.01.2010, %	11.0	11.0	11.0	10.0	10.0
Invested capital payback period, years	35	35	35	35	35
Amount of Federal Grid's invested capital, RUB bn **	647.6	—	—	—	644.7

5.2. Tariffs for electricity transmission services

Tariff rates for electricity transmission services to maintain electric grid facilities, RUB/MW/month and their previous period growth



In accordance with Government Resolution No. 1045 dated 12 December 2009, differential tariff rates are set for electricity transmission services to maintain electric grid facilities within UNEG for the North Caucasus Republics and Stavropol Territory. The table below includes tariffs and their growth rates:

** In accordance with the basic principles of pricing in the area of regulated prices (tariffs) in the electric power industry, approved by Government Resolution "On pricing in regulated areas (tariffs) in the electric power industry" No. 1178 dated 29 December 2011, the rate of return during the first long-term regulatory period, excluding the last year, may be set on a case-by-case basis with regard to capital invested before the switch to RAB regulation and to capital created after the switch to RAB regulation.*

*** Upon the adoption of Government Resolution "On pricing in regulated areas (tariffs) in the electric power industry" No. 1178 dated 29 December 2011, 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 regulatory period, the actual cost of facilities commissioned 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 switched to RAB-regulation in the amount of RUB205.6 billion, which is distributed for three years..*

Period	RUB/MW*month	Growth rate
2010	37,845.23	—
01.01.2011–31.03.2011	46,029.88	21.6%
01.04.2011–30.06.2012	43,783.55	–4.9%
01.07.2012–30.06.2013	48,540.01	10.9%
01.07.2013–30.06.2014	53,119.60	9.4%
01.07.2014 *	52,923.13	–0.37%

RAB regulation involves the Company's obligation to comply with the reliability and service quality parameters set by the FTS. The FTS's decision to establish 2011–2014 tariffs includes targets for reliability and service quality indicators for the UNEG-operating organisation for the 2011–2014 period (see section **Operational Performance / Technological connection** on our **website**)

5.3. Tariffs for technological connection

According to the guidelines for calculating fees for technological connection to the UNEG facilities, the FTS set a procedure for applying two calculation methods: approval of an individual fee for an applicant and formula calculation using a standard tariff rate R1 (excluding investment costs).

According to the FTS, Decree No. 914-e dated 25 December 2012, a technological connection fee for Federal Grid Company was approved as a formula using a standard tariff rate R1 in the amount of 27.56 RUB/kW, excluding VAT.

The Guidelines for Federal Grid Company do not provide for the differentiation of a standard rate S1 for 1 kW of connecting power by voltage level, power range, category of electric power supply of applicants, by territories of citizens of the Russian Federation. Standard tariff rate R1 is uniform throughout the Russian Federation.

You can find information on the standard tariff rate approved by FTS Decree No. 914-e dated 25 December 2012, in Appendix to the Annual Report **on the memory stick attached**.

In 2013, an individual technological connection fee was set for two customers in the amount of RUB1,426 million, excluding VAT.

* *In accordance with Government Resolution No. 1307 dated 30 December 2013, the revision was made of the amount of invested capital of Federal Grid Company upon exclusion of the value of facilities located in the territory of Kaliningrad oblast, which do not meet the criteria for inclusion in UNEG, and of tariffs for electricity transmission services rendered by Federal Grid Company since 1 July 2014 on the assumption that they do not exceed the tariffs as at 30 June 2014.*

6. Debt Portfolio

By the end of 2013, Federal Grid's debt portfolio grew to RUB282.35 billion, primarily owing to placing infrastructure bond issue in the amount of RUB100 billion and placing bonds of Series 24 in the amount of RUB10 billion, which were used to refund credit of JSC Gazprombank. In addition, the Company repaid bank credits in the amount of RUB25 billion in order to optimise its debt portfolio. Upon bond offerings (Series 06 and 08) in 2014 bonds in the total amount of RUB14.85 billion (the initial amount was RUB20 billion) remained outstanding (repayment in 2020). In case of financing requirements and positive market trends, the Company can place a repurchased portion of the bond issues through secondary bond placement. The Company meets its obligations on servicing its debt portfolio and debt repayment in full and on time.

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, Promsvyazbank, AB Russia and Bank Saint Petersburg) with a maturity of 5–15 years. As of 31 December 2013, the total free limit of the credit facilities amounted to RUB157.5 billion.

The Company does not plan to increase its debt load in 2014. We will continue to use all available tools to attract financing (bonds, Eurobonds and bank loans) to finance the 2015–2019 investment programme and to refinance the current debt. Furthermore, our Company plans to primarily use market-based instruments that provide lesser funding costs with longer borrowing terms. The use of specific instruments will depend on market conditions.

Bond issues in 2013

In 2013, within the adopted programme, the Company placed bonds of Series 23, 26, 27, 28, 29, 30 and 34 with a total value of RUB100 billion (infrastructure bonds). As part of the previously approved 2012 programme, bonds of Series 24 were placed in the amount of RUB10 billion.

In 2013, the total amount of funds raised from the bond placement was RUB110 billion.

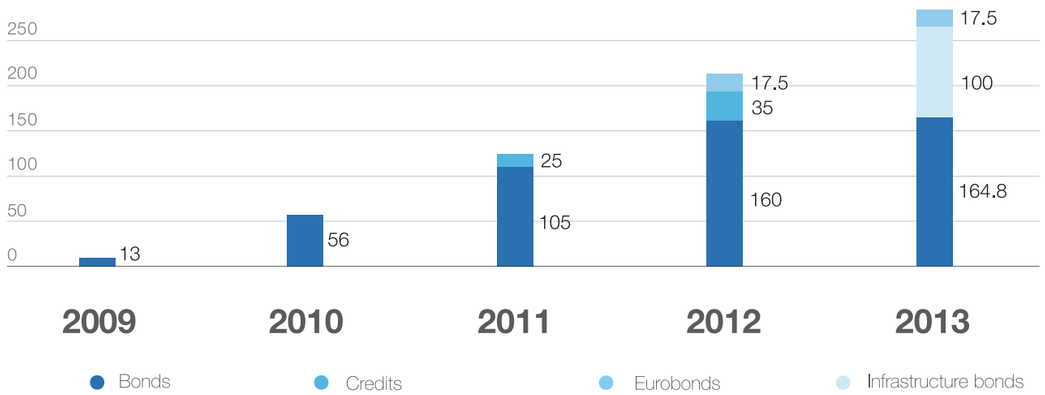
The bonds were placed by public subscription on the MICEX Stock Exchange among a wide range of investors. The funds raised were allocated to finance the Company's investment programme.

The Company's bonds fully comply with Bank of Russia's requirements for inclusion to Bank of Russia's Lombard list and the list of securities acceptable as repo collateral.

Federal Grid's Debt Portfolio as at 31 December 2013

Type of debt	Amount, RUB bn	Repayment period
Bond issue	164.85	2.5–9 yeas
Infrastructure bonds	100	33–35 years
Eurobonds	17.5	6.25 years
Total	**282.35**	**—**

Dynamics of debt portfolio



Credit ratings as at 31 December 2013

Rating Agency	International Scale	National Scale	Latest Rating Date
Standard & Poor's	BBB/Stable	ruAAA	17.10.2013
Moody's	Baa3/Stable	Aaa.ru	23.11.2012
Fitch Ratings	BBB/Stable	AAA(rus)	25.10.2013

7. Credit Ratings

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

Information on 2010–2013 credit ratings

25 October 2013 – Fitch Ratings assigned a Long-term foreign currency Issuer Default Ratings of "BBB". The Outlook is Stable. Long-term National Rating was assigned an "AAA(rus)" with Stable Outlook.

17 October 2013 – 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.

When assigning ratings, both agencies rely on similar factors. The Long-term foreign currency IDRs include a two-notch uplift to reflect moderately strong links with its majority indirect shareholder, Russian Federation (BBB/Stable) through JSC Russian Grids. Federal Grid Company's standalone rating (BB+) takes into account the Company's monopoly position as the owner and operator of the country's national electricity transmission grid, as well as its high level of profitability and liquidity. At the same time, the rating agencies note factors that could have a negative impact on the rating, including uncertainty and low predictability inherent in the Russian regulatory framework, as well as financial risks relating to the implementation of an extensive investment programme.

23 November 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 changes in the ownership structure of the Company, in accordance with the Russian President's Decree "On Joint Stock Company Russian Grids" No 1567 dated 22 November 2012. The Company's financial rating has remained unchanged.

SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

The level of our social responsibility and the quality of interaction with the stakeholders define the sustainability of the movement of the Company along the turnpike (power line) for development in the long term

	2013 TARGET	2013 ACTUAL	2014 TARGET
Average level of customer satisfaction with technological connection services, grade	10	9.3	10
Charitable assistance (to individuals and organisations), RUB mln	200	104	150
Frequency rate of fatal and non-fatal workplace injuries or group accidents because of poor performance/non-performance of job duties, per 1,000 people	0.49	0.32	0.40
Environmental costs, RUB mln	82.5	80.5	88.6
Economic effect of measures within the Energy Saving and Energy Efficiency Programme, RUB mln, net of VAT	101.3	114.5	111.0

Sustainable Development Policy and Social Responsibility Principles

Our commitment to social responsibility and sustainable development principles is based on the Company's mission and strategy. Business priorities set out in our strategy reflect our vision of the further sustainable development of the energy industry in the future.

The main principle of Federal Grid Company's policy in the area of sustainable development is that in our activities we are constantly seeking a balance between social and economic interests.

Federal Grid Company understands corporate social responsibility to mean doing business responsibly and responding to the sustainable development agenda, which is set and updated following regular communication with stakeholders.

Since 2008, Federal Grid has published annual reports on social responsibility and corporate sustainability (Social Report) that inform stakeholders of the efficiency of the Company's socially important 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 international standards for non-financial statement disclosure: GRI (G3) Guidelines, the GRI energy protocol, AA 1000 SES standard. As part of preparing the Social Report, the Company discusses its key topic with stakeholders and collects 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.

Our Social Reports are registered with the National Registry of Corporate Non-Financial Reports, which is maintained by the Russian Union of Industrialists and Entrepreneurs. The Company's 2012 Social Responsibility and Sustainability Report became a platinum winner in the "Annual Report on Social Responsibility" category at the international competition in the area of corporate communications MarCom Awards (USA).

1

RESPONSIBILITY TO THE STATE AND CONSUMERS

- **Prevention or rapid elimination of violations**
- **Development and implementation of innovations**
- **Transparent and efficient investment**
- **Timely modernisation of UNEG facilities**
  - Minimisation of UNEG management and development costs
  - Balancing the grids' capabilities and domestic economic needs

Federal Grid Company's Social Responsibility and Sustainability Reports are available in the Investors/Annual Reports section of our website **www.fsk-ees.ru**

2

RESPONSIBILITY TO PERSONNEL

- **Creation of decent working conditions and providing opportunities for professional and personal growth**

3

RESPONSIBILITY TO ENVIRONMENTAL COMMUNITY

- **Minimisation of negative environmental impacts**

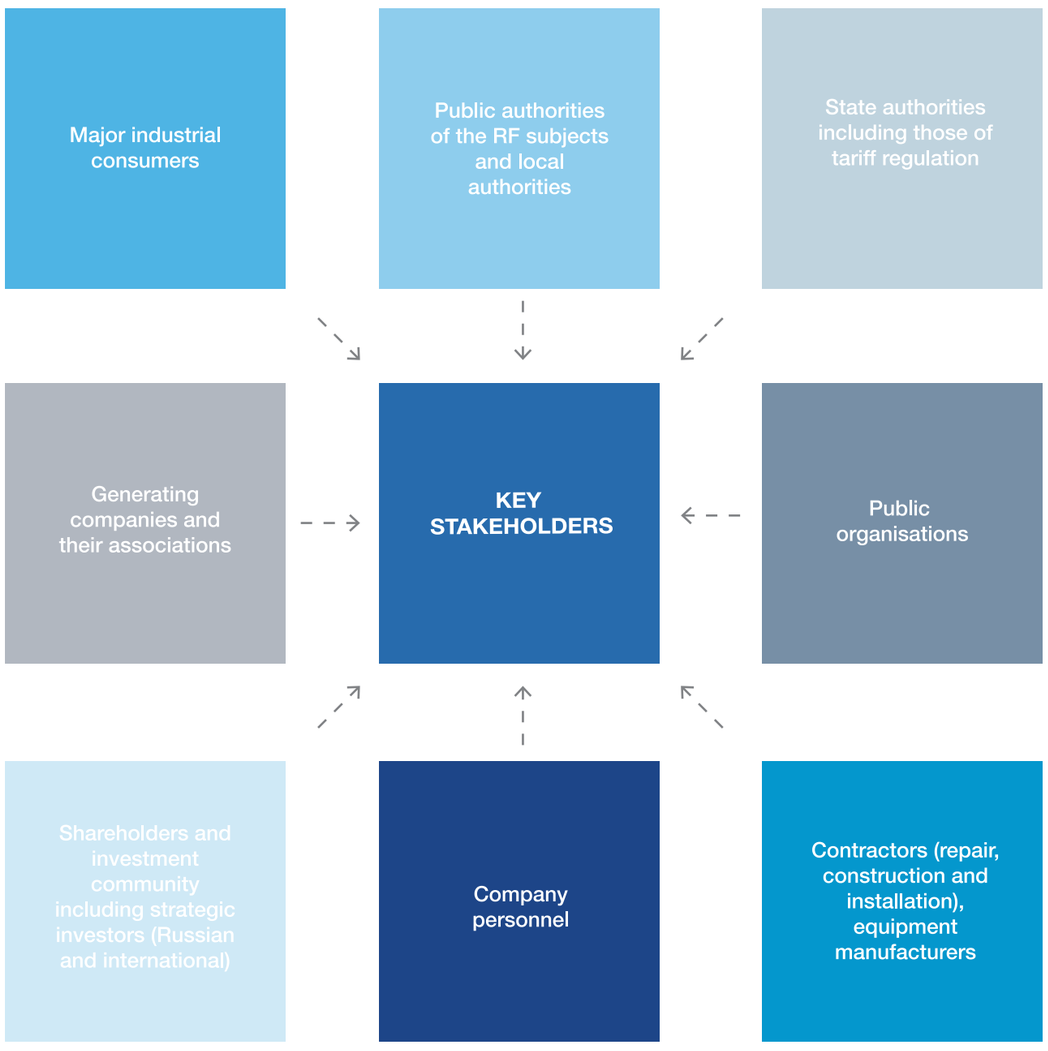
4

RESPONSIBILITY TO SUPPLIERS AND CONTRACTORS

- **Establishment of a transparent competitive environment and market pricing mechanisms**

Stakeholder Relations

Being one of the leading energy companies, Federal Grid builds relationships of trust with all stakeholders through an open and constructive dialogue with them. We consider stakeholder interaction to be a way of consolidating resources, to meet challenges and to achieve common goals. Understanding and analysing key stakeholders' expectations and positions on the issues that are vital for the Company underpins the improvement of corporate social responsibility processes.



Stakeholder Interactions in 2013

Shareholders and investment community	General Meeting of Shareholders Meetings of the Company's managers with investment analysts Consultative meetings with individual minority shareholders
Public authorities of RF subjects and energy companies	Cooperation agreements on UNEG development and improvement of the efficiency and reliability of electric grids and electric grid facilities of UNEG
Personnel	Young specialists' attraction and retention programmes The Dynasty Programme Doors Open Days Summer and Winter Olympics Student Teams
Suppliers and contractors	Signing agreements with major partners, including: InventLLC, MICEX-RTS, Vnesheconombank, the Eurasian Development Bank and Alstom Grid

B+

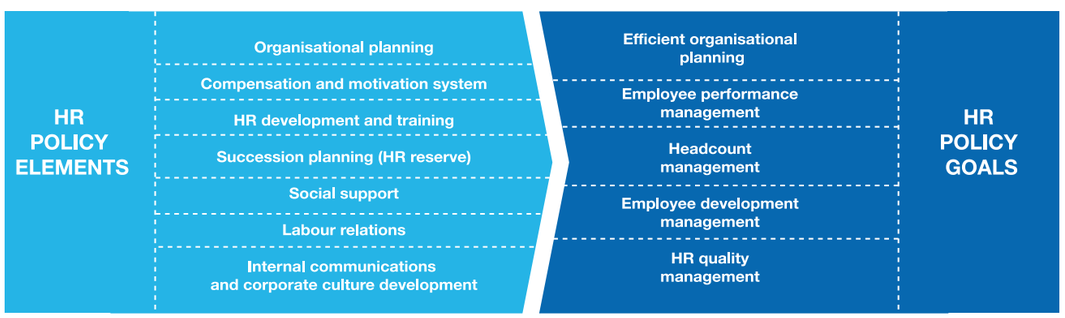
GRI APPLICATION LEVEL

2012 SOCIAL RESPONSIBILITY AND CORPORATE SUSTAINABILITY REPORT OF FEDERAL GRID COMPANY

HR Policy

Our employees are our most valuable asset. Federal Grid Company's integrated system of HR management is aimed at ensuring the balance between the optimal use of employees' performance results, the achievement of corporate strategic goals and the provision of attractive social benefits and guarantees. 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 performance and dynamic development of the electric grid complex.

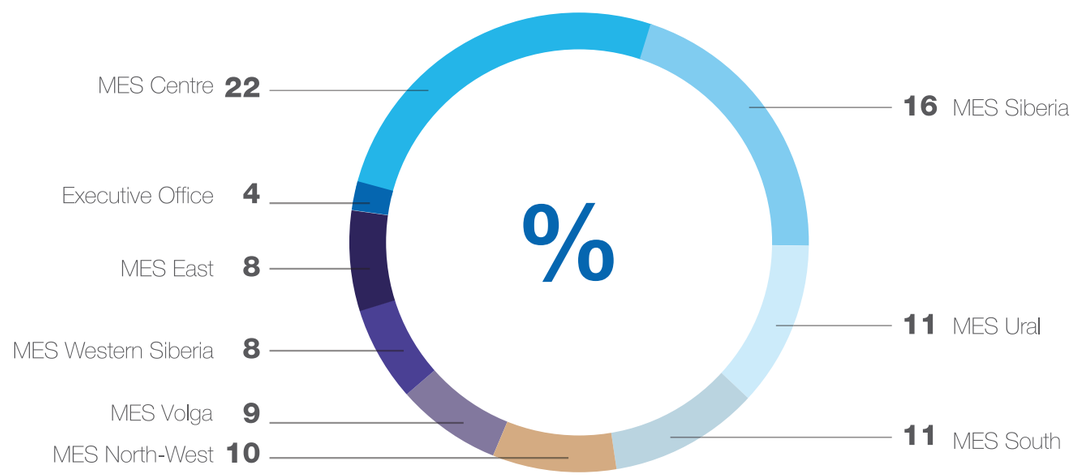
In 2013, the implementation of our HR policy ensured the availability of a skilled workforce with the minimum level of employee turnover and the development of a corporate culture and conditions that promoted the optimal use of work-force capacity.



In 2013, the implementation of HR policy ensured the availability of a skilled workforce with the minimum level of employee turnover and the development of a corporate culture and conditions that promoted the optimal use of HR capacity

Personnel structure

2013 Employee Headcount per Branch



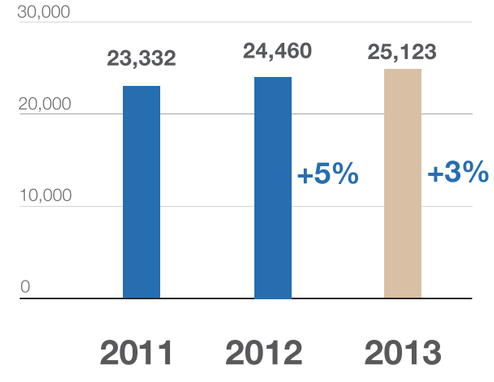
Federal Grid Company employed, on average, 25,123 people in 2013.

A 3% increase in the total number of employees compared with the previous year was caused by the creation of new jobs to ensure the reliable operation of Olympic power facilities, improving repair and maintenance quality as well as implementing plans for commissioning and energising new UNEG facilities.

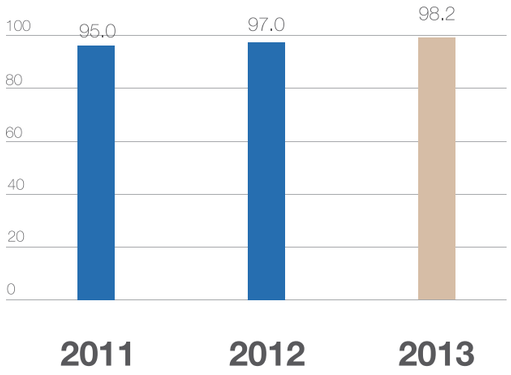
Measures aimed at improving labour efficiency and effectiveness of business processes resulted in a 5% decrease of the number of administrative and managerial employees. The employee turnover rate increased by 1.5% to 7.8% compared with 2012.

The Company's staffing level is rather high, standing at 98.2% of its target value as of 31 December 2013.

Dynamics of Employee Headcount in 2011–2013



Staff Sufficiency in 2011–2013, %

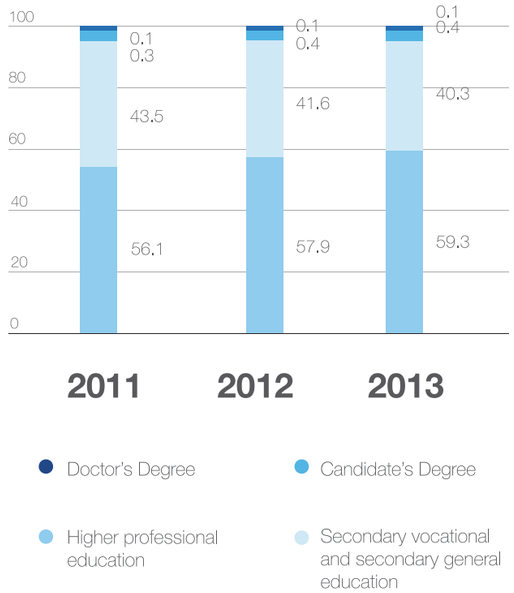


Personnel Structure by Categories in 2011—2013,%

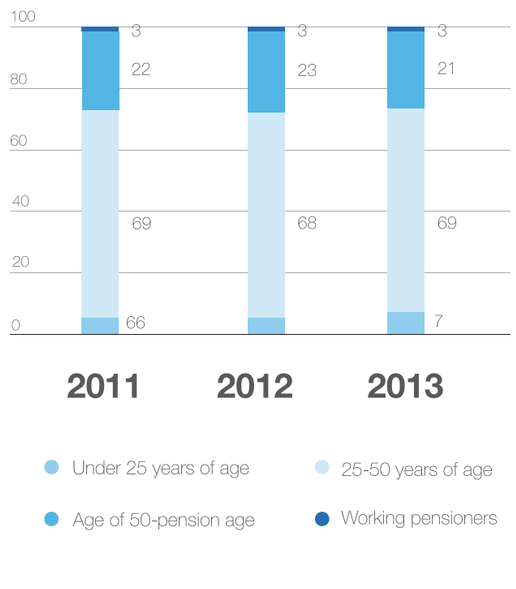
Over the last few years, the number of employees who have been through higher education has increased because we have raised the skill and qualification requirements for employees.

During 2013, the average employee age was 39 years. 69% of our employees are younger than 40 years old.

Personnel Structure by Educational Level in 2011—2013, %



Personnel Structure by Age in 2011—2013,%



Material incentives

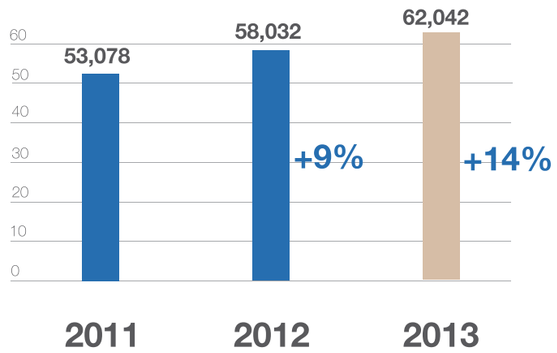
We have developed a compensation system that takes into account the position categories, performance results of the Company's branches and structural divisions, specifics of regional labour markets and the individual contribution of each employee.

We develop measures that take into account the labour market as well as social and economic conditions in the domestic economy to maintain the level of our employees' wages and salaries.

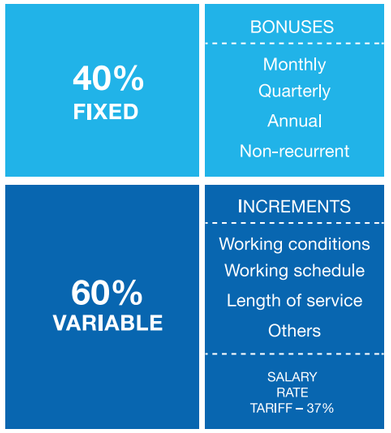
We continue to meet our commitments on wage indexation for our workers by the value of actual growth in the consumer price index in accordance with the provisions of the Sectoral Tariff Agreement of the Russian Federation Energy Sector for 2013–2015..

Employment benefits are another effective tool that the Company uses to increase the Company's social attractiveness and improve employee motivation.

Average wage/salary in 2011—2013, RUB



Employee income structure



OBJECTIVES

ATTRACTION AND RETENTION OF HIGHLY QUALIFIED PERSONNEL

MOTIVATING PERSONNEL FOR LONG-TERM EMPLOYMENT	EFFICIENT ROTATION AND RELOCATION OF PERSONNEL	PROMOTING EMPLOYEE HEALTH, WELLBEING AND PRODUCTIVITY	PROVIDING SOCIAL SUPPORT TO EMPLOYEES
Pension plan	Housing rent compensation	Voluntary medical insurance	Financial assistance connected with scheduled leaves, marriages, childbirths, and funerals
Support programmes for Company veterans		Accident insurance	Extra leave
Rewards scheduled for anniversaries and retirement dates		Compensation for wages lost through temporary disability	Monthly payments to employees with many children or children with disabilities
•Rewards for pensioners scheduled for professional and anniversary dates		Sanatorium and health resort treatment	
		Financial assistance in case of illnesses	

BENEFITS PACKAGE

Personnel Reserves of Federal Grid Company

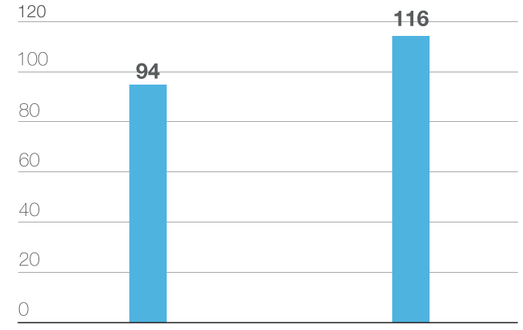
Two types of personnel reserve have been created in the Company: “tactical” and “strategic”. A tactical personnel reserve for the production and technical facilities of Federal Grid — MES (backbone electric grids),was created to improve the reliability of grid facilities and to establish a succession pool of qualified candidates for vacant positions.

The HR reserve for the position of PMES’ director was created to minimise HR risks related to professional level of directors of PMESs (backbone electric grid enterprises).

In order to develop the professional competencies of candidates from the tactical personnel reserve, a mentorship programme was launched which required each candidate to complete his individual training plan under the supervision of his mentor. At the end of 2013, 243 employees have completed their individual training plan.

Since 2011, as a part of our activities on the development of strategic personnel reserve we have implemented, together with the Skolkovo Moscow Management School, an education project aimed at training mid-level managers. In 2013, 46 mid-level managers received training under the second integrated programme, “Leaders of Change”, and 40 managers who were trained under the first programme took part in the Foresight Sessions on development management in the Company.

Availability of managerial personnel reserve as of the end of 2013 (% of positions covered)



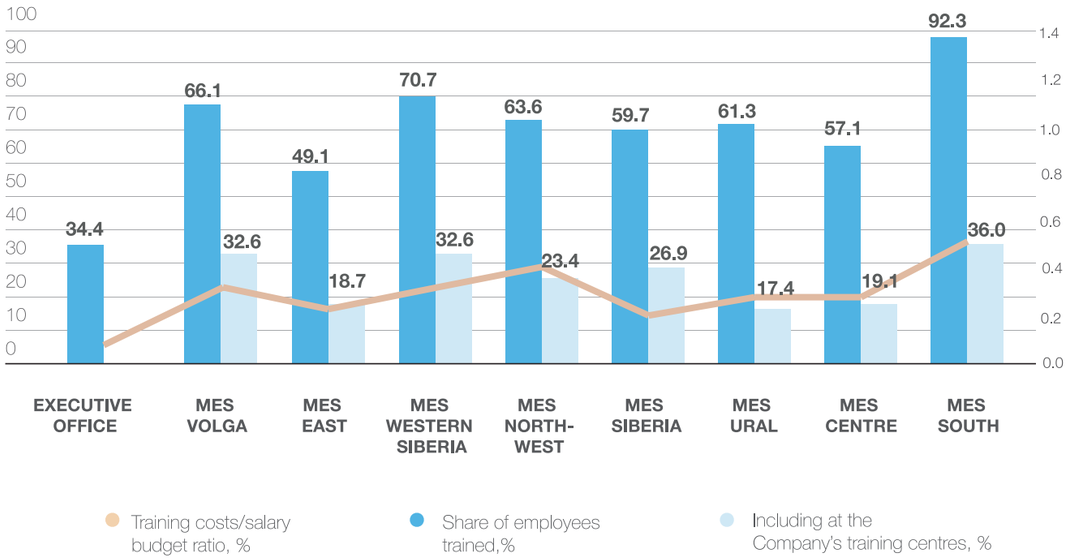
Type of personnel reserve	Number of reservists in 2013, persons	Number of reservists appointed to superior positions	
		target positions	others
Tactical personnel reserve for production and technical facilities of Federal Grid – MES	459	36	65
Personnel reserve for the position of PMES’s Director	96	4	14

Personnel Training and Development

Having personnel with a high level of professional qualification is one of the key factors driving the reliable operation of UNEG.

In 2013, 16,154 employees were involved in various types of training, which is 63% of the Company's overall workforce.

Share of employees trained in 2013, and training costs/salary budget ratio, %



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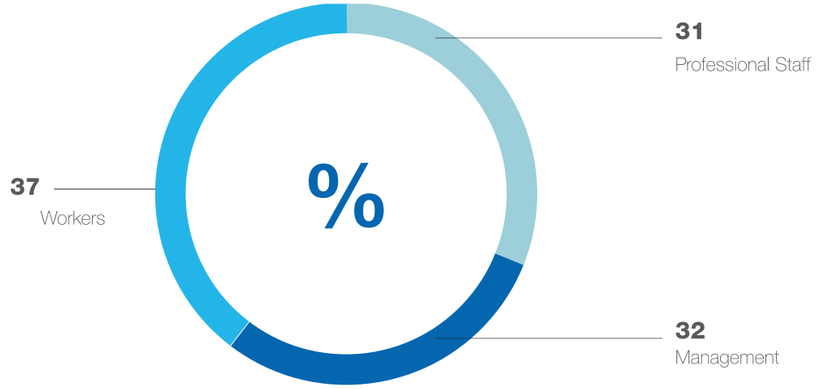
In 2013, 16,154 employees were involved in various types of training, which is 63% of the Company's overall workforce.

Executive Office, MES Volga, MES East, MES Western Siberia, MES North-West, MES Siberia, MES Ural, MES Centre, MES South

In all regions where Federal Grid operates, we have created a network of training centres. Personnel Training Centres include a set of special facilities: training simulators, laboratories with relay protection and emergency automatic equipment, and electric grid training areas with prototype equipment of various voltage levels. It allows us to organise emergency response exercises and to offer our employees both theoretical knowledge and hands-on skills.

In 2013, 8,297 persons were trained in the Company's Personnel Training Centres, and 257 emergency response exercises were organised.

Employee training in 2013 – breakdown by employee categories



In June 2013, a Personnel Training Centre of the Company's Sochinskoe PMES was opened to provide professional training for employees engaged in ensuring the reliable power supply during the Sochi 2014 Winter Olympics and Paralympics. Since then, it has trained 1,103 employees within the following areas: standard programme of advanced training; specific training courses; training on teamwork skills in emergency situations, stress-resistance skills and managerial skills.

All employees sent to Sochi from the Company's branches – MES received the mandatory advanced training aimed at developing their professional knowledge and skills, as well as testing by the methods of integrated diagnostics and professional stress correction.

To build its HR capacity in the energy sector, Federal Grid implements activities aimed at providing young employees with opportunities for professional growth and aims to attract talented younger people to address the long-term issues involved in the innovative development and modernisation of the electric grid complex. In 2013, 77 employees of MESs, as well as students and post-graduates from specialised higher-education institutions, took part in the Youth Round Table "Accessible Grids: Investment attractiveness or social infrastructure? Youth dimension" held within the 2013 St. Petersburg Youth Economic Forum.

For detailed information on training and retraining of Federal Grid Company employees in 2013 see Appendix to the Annual Report.on the memory stick attached

IN 2013
8,297
EMPLOYEES WERE TRAINED IN PERSONNEL TRAINING CENTRES OF FEDERAL GRID COMPANY

Strengthening Corporate Culture

The Company's corporate culture brings employees together as a united team, providing motivation for fruitful work, encouraging their initiatives and facilitating communications.

Our Company holds various activities within the Dynasty Programme aimed at fostering labour traditions and ensuring generational continuity. In 2013,we organised visits of our employees' children to the Company's production facilities, where they took part in a drawing contest, "Energy of Olympics", and celebrations for veterans dedicated to Victory Day and the Power Engineers' Day.

On 20 April 2013, more than one thousand employees of the Company's administration together with their families took part in a second annual Voluntary Saturday Work. They came out to clean up the socially important territories of Moscow city.

We promote a healthy lifestyle, sport and physical activities among our employees, offering them partial reimbursement of gym membership. The Company's volleyball and indoor soccer teams participate regularly in competitions for corporate leagues, including the annual Fuel and Energy Complex Cup. Every year, our employees' team takes part in a chess tournament in memory of Mikhail Botvinnik organised among power industry professionals by JSC R&D Centre of FGC UES.

In 2013, the Company organised the first Winter Olympics for electric grid complex staff in Sochi. Those employees who demonstrated the best results in the competitions were included in the list of participants of the Sochi 2014 Olympic Torch Relay.

In 2013, the Company organised the first Winter Spartakiada Games for electric grid complex staff in Sochi. Besides the teams from Federal Grid branches, there were teams from the distribution grid companies of JSC Russian Grids that took part in the Spartakiada. Those employees who demonstrated the best results in the competitions were included in the list of participants of the Sochi 2014 Olympic Torch Relay.

Non-Governmental Pension Programme

A non-governmental pension programme for the Company employees was approved in 2004.

In 2013, RUB306 million was allocated for the non-governmental pension fund. Since the programme launch, a non-governmental pension from Federal Grid funds has been granted to 4,072 employees.

Implementing this programme had a great motivational effect on our employees, rejuvenating them, and provided our employees with decent non-governmental pensions, which in turn retained highly qualified personnel.

Employees eligible for the NGPP: full-time employees with at least 10 years of uninterrupted service prior to the date when the right to labor pension is acquired

A PERSONAL ACCOUNT FOR AN EMPLOYEE IS OPENED

WHEN THE RIGHT TO AN OLD AGE LABOUR PENSION IS ACQUIRED		WHEN THE RIGHT TO LABOUR PENSION IS ACQUIRED DUE TO DISABILITY
ON A COMMON BASIS men — 60 years women — 55 years	PRIOR TO THE SCHEDULED DATE on special terms	

Housing Policy

Our Housing policy is an important tool for attracting and retaining the Company's key personnel.

The Company has a Corporate Housing Programme that allows us to address the ever-present issue of attracting personnel to remote power facilities.

We also have a long-term programme aimed at providing corporate assistance to improve employees' housing conditions. The programme includes compensation of mortgage interests, loaning and furnishing securities for loans.

Furthermore, our Company compensates the employees' rental costs during a year when their activities involve moving to another place. Young employees are eligible for this benefit during the first three years of their employment.

Awards Policy

Our employees are entitled to awards if they have rendered great service to the State, to the fuel and power industry or to the Company, and if they demonstrate high production and management efficiency, or achieve great results in the operation, construction and re-construction of electric grid facilities.

Awards were given to 2051 employees of the Company and its subsidiaries and associates during the reporting year, including 80 employees who were awarded by the Russian Ministry of Energy for their services to the industry. Twenty-one employees received State awards of the Russian Federation for their services to the State. Four employees were given the title "Honoured Power Engineer of the CIS" for their services to developing integrated processes in the power industries of CIS countries.

Social Policy

Youth Policy Implementation

In cooperation with educational institutions, the Company is addressing the issue of finding and supporting young and promising professionals.

Working with students, we focus on assisting them to obtain skills directly at the Company's facilities and involving them in innovative research. During the reporting year, more than 1,200 students and teachers took guided tours of the Company's production facilities. Seven hundred and fifty students underwent practical training at the facilities of Federal Grid Company; temporary jobs were created for 200 of them.

In 2013, the traditional annual Day of Federal Grid Company was organised in the industry-specific institutions with participation of more than 2,500 students from 40 higher-education institutions.

In October 2013, a showcase of innovative solutions of higher-education institutions – Federal Grid's partners — was held within the UPGrid-2013 International Electric Power Forum.

The Company supports institutions' initiatives on improving the structure and content of bachelor-level and master-level programmes, as well as educational programmes for power engineers with a view to adapt them to up-to-date production requirements. Our qualified professionals assist, upon request, higher-education institutions in developing topics for yearly essays and degree theses considering the specifics of electric grids. Seventeen employees of the Company's branches are members of Thesis Boards and State Examination Boards.

We also contributed to upgrading laboratory facilities of higher-education institutions, providing equipment needed for research. In 2013, a charitable donation for these purposes was provided to Siberian Federal University, National Research University Moscow Power Engineering Institute (MPEI) and the Development Fund of MPEI.

In 2013, Federal Grid together with its Research & Development Centre held a nationwide youth contest, "Energoproryv"(Energy Breakthrough), of innovative projects and developments in the field of smart energy. There were 120 applications from across the country, and the best projects were presented at a scientific/practical conference.

From 30 June to 6 July 2013, the Company's specialists took part in an innovative forum of young power engineers, "Forsazh-2013", held in Kaluga oblast.

The Youth Round Table "Accessible Grids: Investment attractiveness or social infrastructure? Youth dimension" was held in June 2013 within the XVII St Petersburg Economic Forum with the participation of Federal Grid.

Our Company contributes to the development of industry-specific secondary vocational education and interacts with 14 specialised secondary schools providing assistance in equipping their laboratories and organising practical training. We pay particular attention to our relations with Far Eastern Power Engineering College (in Vladivostok) and the Power Engineering College in Makhachkala.

We continued our tradition of promoting student construction teamwork at the Company's facilities. During the reporting year, more than 900 students (63 teams) from 35 higher-education institutions and three specialised secondary schools worked at 50 facilities.

Charity Projects

In 2013, Federal Grid Company spent RUB104 million on charitable projects. The spending limits for charitable purposes are approved by the Company's Board of Directors in the annual business plan.

Health and safety

Our health and safety measures are aimed at eliminating workplace injuries and occupational diseases, promoting safe conduct and developing accident-prevention skills among employees, as well as at continuously improving working conditions.

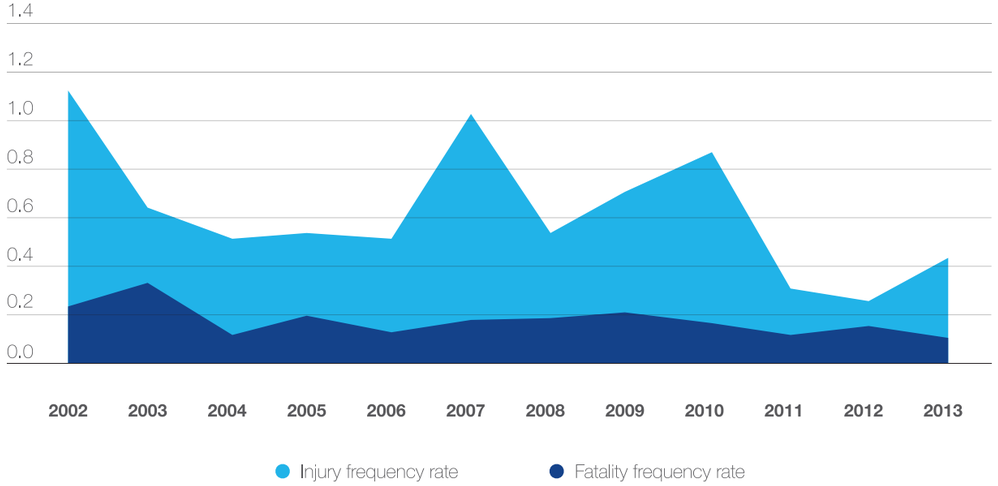
In 2013, the number of accidents remained on the level of 2012 (six accidents). The number of fatal accidents fell by half compared with the previous year.

To improve production safety, we take precautions to safeguard our employees before conducting any kind of repair work. We assess risks to employee safety and develop

corrective actions, produce health and safety films and conduct regular safety checks on work carried out by our repair teams. Furthermore, during the reporting year we implemented the following health and safety initiatives:

- A project on the use of mobile video recorders aimed at recording the most dangerous actions of employees working on electrical installations with further corrective actions.
- A focus of Labour Protection Days was changed to increase efficiency and prevent violations of safety rules.
- The Road Traffic Safety Month was organised.
- Operation of 50 permanent and 17 mobile health and safety offices was organised to promote safe working conditions and to train personnel to use safe practices.
- Stress-release rooms for substation personnel were retained.
- A review competition was conducted for the best organisation of work in the area of health and safety among the Company's branches.

Injury and Fatality Rates at the Company's Facilities



Industrial Safety

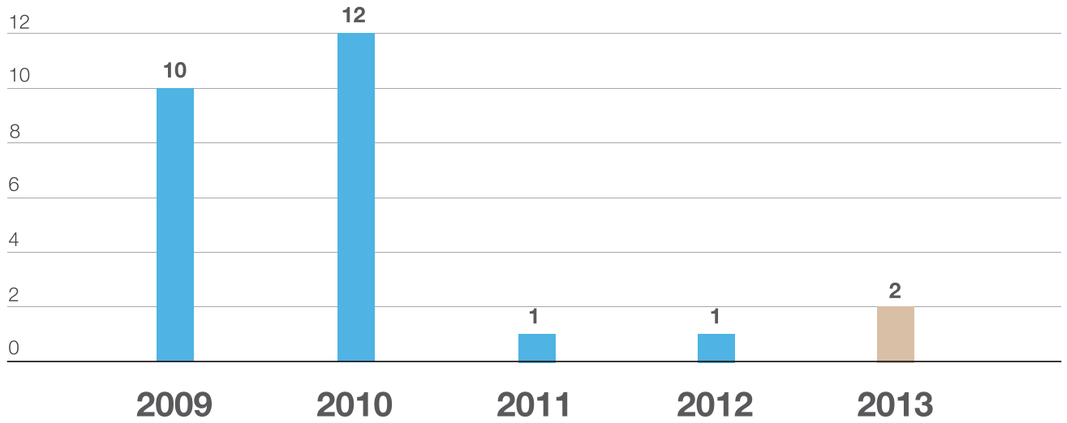
In 2013, Federal Grid Company operated 278 hazardous industrial facilities (HIFs) registered with the State Registry. To ensure safe operation of HIFs, to prevent accidents and to ensure emergency preparedness, we have taken the following measures:

- registration/exclusion/re-registration of HIFs with the State Register
- drafting and implementing documents that regulate the safe operation of HIFs
- insurance of civil liability for causing harm caused by to an accident at an HIF
- industrial safety training and testing of personnel

Fire Safety

During 2013, two fires occurred at the Company's substations owing to defects of high-voltage bushings of the autotransformers. No fires occurred in the protected zones of high-voltage power lines.

Fires at the Company's facilities in 2009–2013



Energy Saving and Energy Efficiency

Energy saving and improving energy efficiency are some of the top priorities in Russia's technological development. To comply with the Federal Law "On Energy Saving and Improving Energy Efficiency" No. 261-FZ dated 23 November 2009, our Company has developed an Energy Saving and Energy Efficiency Programme for 2010–2014.* The purpose of this Programme is to ensure saving and rational use of energy resources by improving the energy efficiency of Federal Grid facilities and equipment.

The Federal Grid energy saving and energy efficiency initiatives in 2013 were organised in accordance with the following documents:

- Federal Law "On Energy Saving and Improving Energy Efficiency, and on Introducing Amendments into Certain Legislative Acts of the Russian Federation" No. 261-FZ
- Resolution of the RF Government "On the Procedure for Establishing Requirements for Energy Saving and Energy Efficiency Programmes of Organisations Engaged in Regulated Activities" No. 340 dated 15 May 2010
- Decree of the Federal Tariff Service (FTS of Russia) "On Establishing the Requirements for Energy Saving and Energy Efficiency Programme of JSC FGC UES for 2010 – 2014" No. 401-e dated 25 August 2010
- Energy Saving and Energy Efficiency Programme of Federal Grid Company for 2010 – 2014 (hereinafter, the "Program")

The energy saving and energy efficiency initiatives for 2013 approved under the Programme include the following key areas:

- Reducing the process energy consumption in UNEG
- Fitting the buildings, structures, and installations that are part of Federal Grid facilities with metering devices for all types of energy and energy carriers, including water, natural gas, thermal energy, and electrical energy
- Reducing the electrical and thermal energy consumption in buildings, structures, and installations owned by Federal Grid
- Reducing the consumption of fuel and lubricants used by Federal Grid to provide the electricity transmission services through UNEG, per 1 km of distance traveled by motor vehicles, as well as the consumption of motor fuels by vehicles.

To ensure implementation of the Programme at the Executive Office and the branches of Federal Grid (MES) a Decree of Federal Grid Company No. 750 was issued on 6 December 2013 "On Organising the Implementation of the Energy Saving and Energy Efficiency Programme of JSC FGC UES for 2013 – 2014 and Developing the Programme for 2015 – 2019".

By decrees of the branches, leaders were appointed responsible for the coordination, implementation, and monitoring of the Programme implementation activities, and taskforces were formed to analyze implementation of the Programme and develop solutions based on the analysis.

** The Programme was approved by resolution of the Management Board of Federal Grid (minutes No. 979/2 dated 27 July 2011)*

Results of implementation of the Energy Saving and Energy Efficiency Programme in 2013

	Volume	Process impact of the measures taken to reduce the consumption of energy/fuel	Economic impact of the measures taken to reduce the consumption of energy/fuel
Process electricity consumption in UNEG	22,261.5 mln kWh	98.7 mln kWh	108,852
Electricity consumption in buildings	35.7 mln kWh	0.8 mln kWh	2,519
Thermal energy consumption in buildings	50.6 thousand Gcal	1.8 thousand Gcal	1,823
Gasoline consumption	9.1 mln liters	26.3 thousand liters	727
Diesel consumption	7.1 mln liters	18.6 thousand liters	541

Federal Grid pilot projects on energy saving and energy efficiency:

1. AT 1 heat recovery at the Nizhegorodskaya 500/220/10 kV SS
2. Optimising operation of the transformer cooling systems
3. Using plasma lamps for lighting of the open switchgear
4. Using "light tubes" for lighting of office buildings
5. Automation of the lighting system controls
6. Introduction of an automated heating station
7. Improving energy efficiency of the lighting installations at the administrative building of the Upper Don PMES.

Detailed information on the Federal Grid pilot projects on energy saving and energy efficiency is available in Appendix to the Annual Report **on the memory stick attached**

Federal Grid continues to implement the energy management system compliant with the international standard ISO 50001:2011 "Energy management systems — requirements with guidance for use". To ensure compliance with that standard, the Company is currently conducting work on the development, improvement, and certification of the corporate energy management system of the Executive Office and two branches of Federal Grid – MES Volga and Samarskoe PMES.

ECONOMIC EFFECT FROM THE IMPLEMENTATION OF THE ENERGY SAVING AND ENERGY EFFICIENCY PROGRAMME

RUB 114.5 MLN

Environment

Our Company is pursuing a responsible approach to environmental protection which aims to increase environmental safety levels and to ensure the reliable and environmentally safe transmission and distribution of power.

We operate in compliance with our Environmental Policy, which includes technical and organisational measures intended to mitigate the negative environmental impact of the Company's operations.

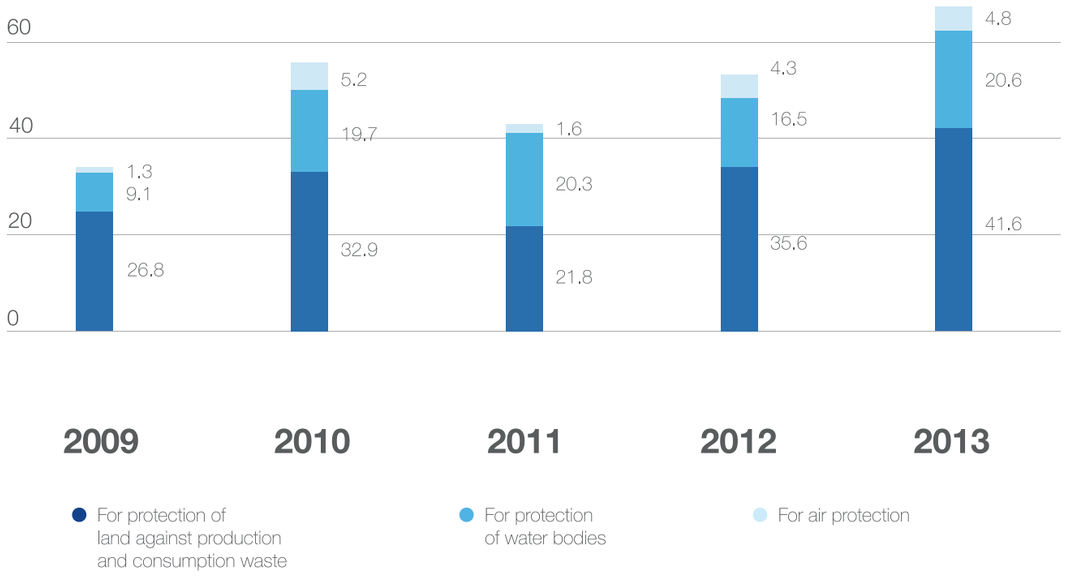
In 2013, a new version of the Environmental Policy of Federal Grid Company was drafted and approved by the Management Board, and in 2014 it will be submitted for approval to the Board of Directors.

To define methods of and approaches to the implementation of the Environmental Policy, in 2013 we prepared a Concept of Environmental Development of the Electric Grid Complex which describes the principles and tools of environmental activities, mid- and long-term milestones, environmental risks and risk mitigation solutions. Prepared in accordance with the requirements of the Environmental Doctrine and the Development Strategy of the Russian Electric Grid Complex until 2030, the Concept was approved by the Company's Management Board and the Technical Council of the electric grid complex.

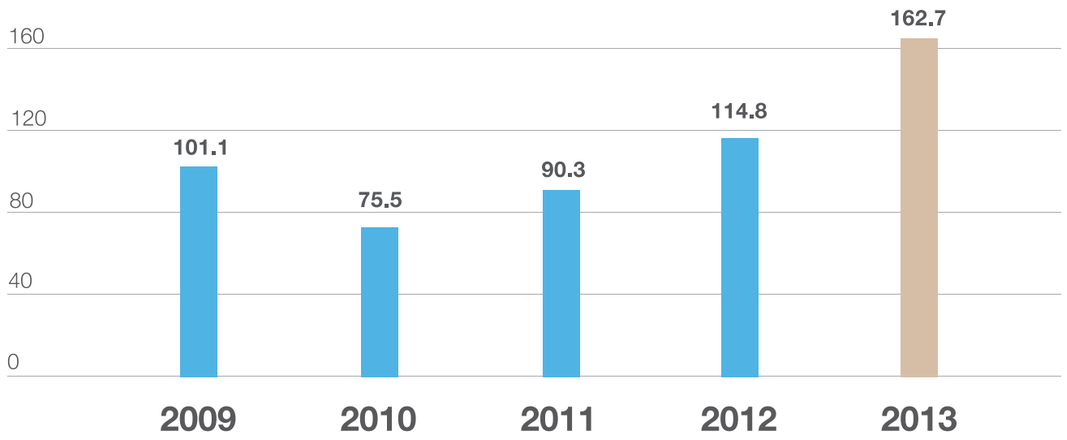
To ensure a high level of environmental management, we are committed to embed voluntary international environmental standards in our practices. Since 2011, the Company's Executive Office and MESs have been working on the systematic implementation and certification of the Environmental Management System (EMS) for compliance with the requirements of the international standard ISO 14001:2004.

In 2013, the EMS was developed, successfully implemented and certified for compliance with ISO 14001:2004 in the Company's major branch –MES Centre. Auditors from the independent certification company SGS Vostok Limited confirmed its efficiency, effectiveness and suitability for continuous improvement. During the reporting period, a compliance audit of the Environmental Management Systems of the Company's Executive Office and the branches MES South and MES North-West was also performed, and their certification status was confirmed.

Environmental Costs in 2009–2013, RUB million



Air Emissions in 2009–2013, tonnes



The Company's main activity, which is the electricity transmission, is much less harmful to the environment compared with other power industry sectors, as the Company's technological processes do not produce any emissions, discharges or waste; these occur only in the course of operational activities and so their harmful effect is kept to a minimum.

The total amount of the Company's environmental costs and investments in 2013 was RUB203.53 million, of which RUB73.1 for current environmental costs, including costs for the EMS implementation and environmental personnel training.

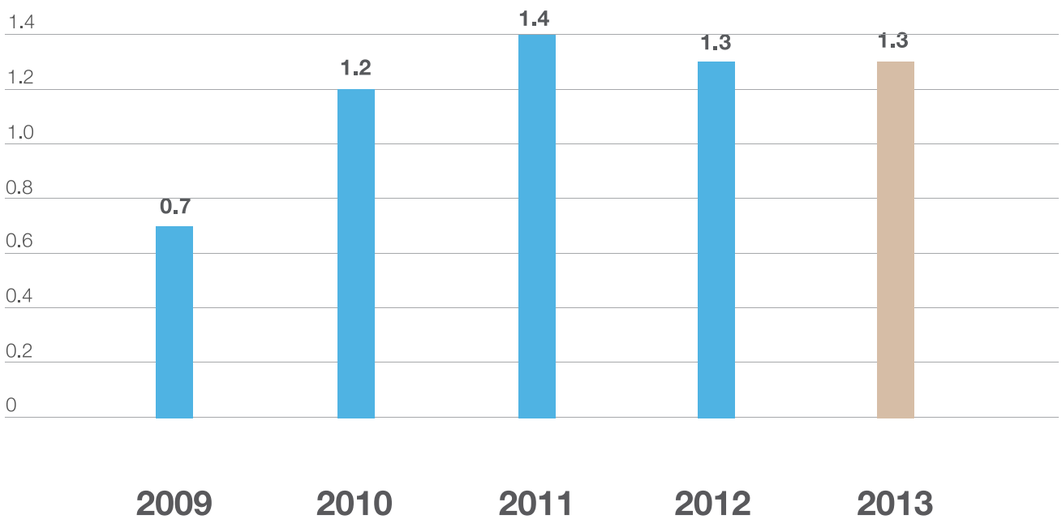
Every year charges for negative impact on the environment for all of the Federal Grid Company increase slightly owing to the commissioning of new facilities and the standardisation of new previously unrecorded sources of emissions and discharges. In 2013, these charges increased by 6% to RUB7.54 million. At the same time, one should note an annual decrease of overcharges resulting from the receipt of necessary permits for almost all branches of the Company.

Total volume of air emissions in 2013 increased owing to an increase in the emission of gaseous and liquid pollutants, which is driven by the extended inventory of sources of emissions (transformers, welding stations, garages, workshops, etc.) in the Ural, South, Volga, North-West and Western Siberia MESs.

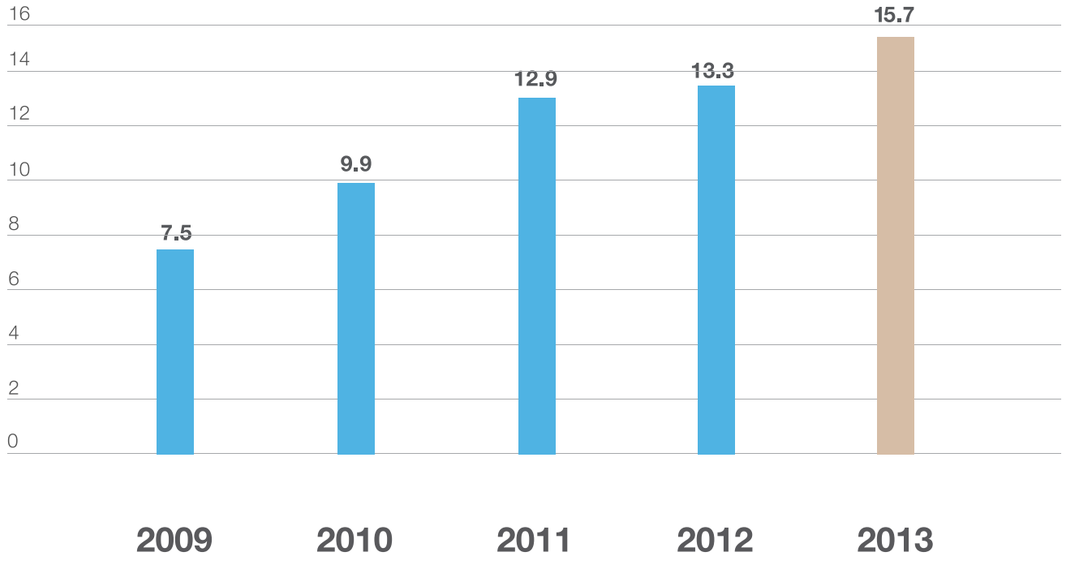
Water at the Company's facilities is consumed mainly through the centralised water supply. We also use imported water and draw it from both surface and underground water sources. The decrease in water consumption in 2013was a result of measures taken for the maintenance, repair and reconstruction of water supply facilities in the Company's branches – MESs and PMESs, and the subsequent reduction of water loss.

In the course of operations of the Company's branches – MESs and PMESs–wastes of I-VI hazard classes are generated. The increase of waste generation volumes is due to the commissioning of new facilities, as well as maintenance and repair activities, including construction waste and the removal of outdated equipment in all branches.

Water Consumption in 2009–2013, million m³



Waste Generation Volume in 2009–2013, thousand tonnes



The year 2013 was officially declared the Year of Ecological Culture and Environmental Protection in the Russian Federation. Federal Grid took an active part in activities held within the year such as:

- The VII All-Russian Conference “Ecology and Production”, where Federal Grid Company was declared a winner of the “100 best organisations of Russia” competition in the “Environment and environmental management” category
- The X World Conference on Sport and Environment held by the IOC in Sochi
- The I International Ecological EU–Russia Forum held in Marbella, Spain
- World Environment Day (4 June), when Federal Grid Company held a videoconference with representatives from the Ministry of Energy and the Ministry of Natural Resources, and environmental communities
- The IV All-Russian Environmental Congress.
- At the end of the year, the Chairman of the Company’s Management Board, Andrey Murov, and the Russian Representative Office of the World Wildlife Fund (WWF) signed a cooperative agreement that envisages cooperation in such areas as improvement of efficiency and environmental safety of the Company’s facilities, promotion of renewable sources of energy and protection of biodiversity. It is the first time in history that an agreement with a non-government environmental organisation has been signed by a Russian electric grid company.

Our major tasks for 2014 in the environmental area are as follows:

- Development of the long-term programme for the environmental development of Federal Grid for the period up to 2030.
- Inclusion of environmental requirements and criteria to the list of indicators for the Company’s strategic programmes, such as the Unified Technical Policy of the Electric Grid Complex, the Innovation Programme and the Investment Programme.
- Improvement of environmental control and reporting.
- Implementation and certification of the Environmental Management System of MES East, confirmation of certification status of the Executive Office and the branches MES South, MES North-West and MES Centre, and preparation to be made for the certification of the Company.
- Revision of the Company’s corporate standards for environmental safety of electric grid facilities.

CORPORATE GOVERNANCE

Good governance is a key condition for entering the path of high economic growth and maintaining stability on the turnpike (power line) for development

Governance system

	TARGET 2013	ACTUAL 2013	TARGET 2014
Corporate Governance Rating	7+	7+	7+

Corporate governance principles

Our corporate governance system is based on strict compliance with Russian law and the principles set down in the Russian Code of Corporate Conduct and in the Company's Corporate Governance Code. We also aim to keep up with the best Russian and international corporate governance standards, including the globally recognised principles developed by the Organisation for Economic Cooperation and Development (OECD).

Recognising the need to improve corporate governance systems in order to ensure the Company's competitiveness, sustainability and attractiveness to investors, we constantly monitor and implement good governance standards in all structural divisions, branches, subsidiaries and associates of Federal Grid Company.

The following principles underlie Federal Grid's corporate governance policies and procedures:

- **Transparency** – we are committed to the timely and accurate disclosure of all material information on the Company's business, including its financial status, social and environmental indicators, operating results, ownership and governance structure. Federal Grid makes this information freely accessible for all interested parties.
- **Accountability** – our Board of Directors is accountable to all shareholders in accordance with the applicable legislation, and the Company's executive bodies are accountable to the General Meeting of Shareholders and the Board of Directors.
- **Fairness** – we are committed to protecting shareholder rights and treating all shareholders, owning the same quantity of shares of the same type (category), equally.
- Responsibility – Federal Grid recognise the rights of all stakeholders, as provided for by applicable legislation, and aims to cooperate with them for the purpose of the Company's growth and financial stability

Federal Grid's Code of Corporate Governance, approved by the Board of Directors in November 2012, is a framework document aimed at improving the systematisation of corporate governance, ensuring greater transparency and confirming the Company's readiness to comply with the highest standards in this area. The Company also adopted the Code of Corporate Ethics focused on improving the level of corporate culture in all its structural divisions.

Federal Grid Company has adopted internal documents which regulate activities of the governing and control bodies and other issues of the Company's corporate governance system.

The full set of internal documents is available on our website, **www.fsk-ees.ru, and the Investors / Corporate Governance / Corporate Documents section**

Corporate Governance Rating

In December 2012, the Russian Institute of Directors assigned a National Corporate Governance Rating Score of 7+ to Federal Grid Company. This rating proves that the Company complies with Russian corporate legislation, follows the majority of recommendations of the Russian Code of Corporate Conduct* and a number of best international practices and its owners have a low risk of experiencing losses related to the quality of corporate governance.

During the reporting period, the Company demonstrated its adherence to high standards of corporate governance, meeting liabilities to shareholders and other interested parties.

In February 2014, Federal Grid Company's National Corporate Governance Rating was confirmed at a 7+ level.

Federal Grid is committed to maintaining a high level of corporate governance, so we intend to continue work in this direction. A main task for us in this field will be bringing our internal documents, rules and procedures in line with new corporate governance requirements and recommendations following the adoption of a new Russian Code of Corporate Governance and the new listing rules of the Moscow Stock Exchange.

CORPORATE GOVERNANCE PRINCIPLES OF FEDERAL GRID COMPANY

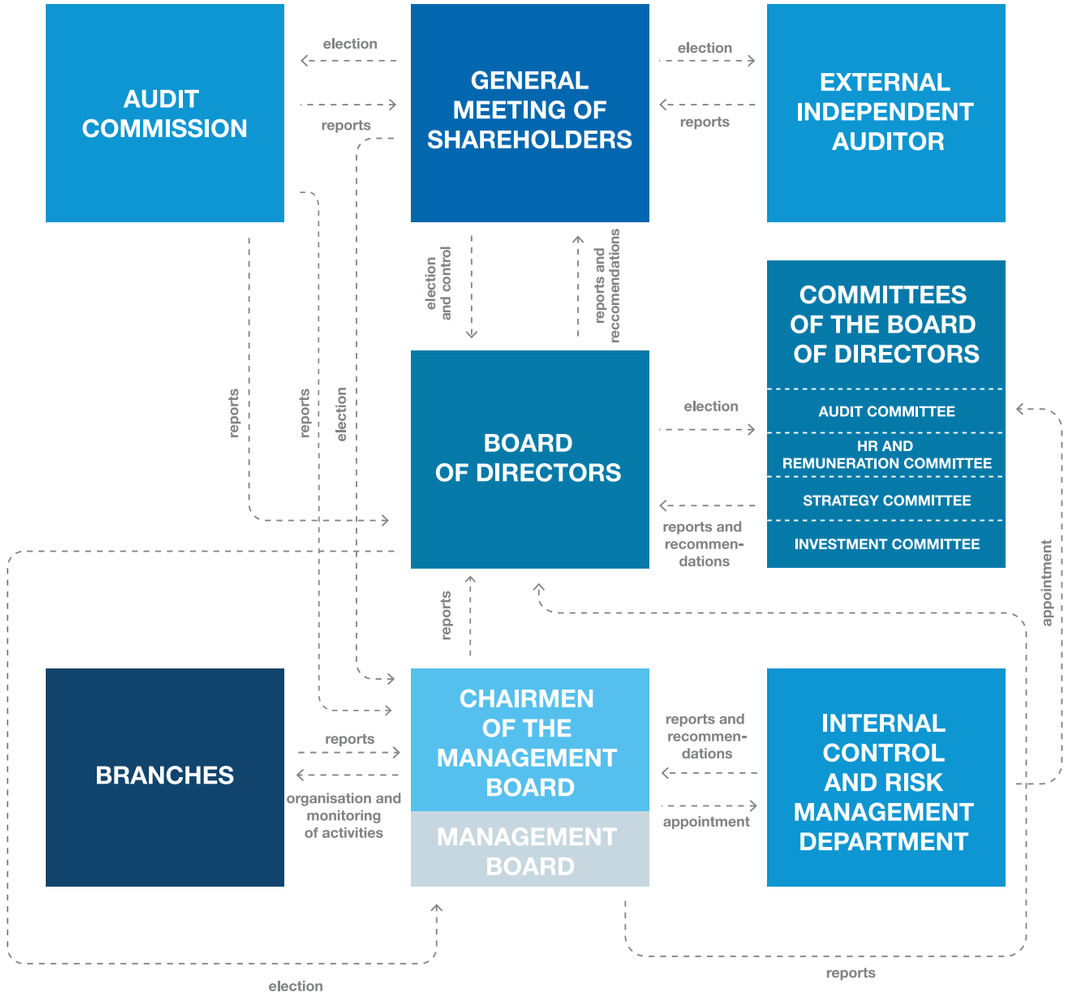
TRANSPARENCY
ACCOUNTABILITY
FAIRNESS
RESPONSIBILITY

** Information on compliance with the Russian Code of Corporate Conduct is contained in Appendix to the Annual Report on the memory stick attached*

Governing and control bodies

Federal Grid Company has a well-developed organisational structure of governing and control bodies that interact well with each other. The General Meeting of Shareholders is the supreme governing body of Federal Grid Company. The Board of Directors is responsible for overall leadership and providing strategic guidance, as well as for supervising the Company's Management Board, which is in charge of the day-to-day management of Federal Grid. The Chairman of the Management Board is the Company's Chief Executive Officer. Committees under the Board of Directors aim to improve the efficiency and quality of the Board's performance. Federal Grid has an efficient control system, both externally (independent external auditor and Audit Commission) and internally (Company's divisions of internal audit and control).

Organisational Structure of Governing and Control Bodies of Federal Grid Company



General Meeting of Shareholders

The General Meeting of Shareholders (GMS) is the supreme governing body of Federal Grid Company. In accordance with the Federal Law "On Joint Stock Companies" and the Company's Articles of Association, matters within its competence include, among others, payment of dividends, approval of annual reports and annual financial statements, election of the external auditor, reorganisation and liquidation of the Company, election of members of the Board of Directors and the Audit Commission, approval of large transactions and related party transactions and other important matters relating to Company business.

When preparing and holding a GMS, the Company follows recommendations of the Russian Code of Corporate Conduct ensuring the smooth execution of shareholder rights including the following:

- Shareholders holding at least 2% of the voting shares are provided with an opportunity to exercise their rights as stipulated by the Articles of Association and current legislation, upon submitting a statement of their securities account (if their right to shares is recorded in a securities account) without submitting any other documents as evidence of their rights.
- Notice on the GMS is sent (or handed over) to each person included in the list of those authorised to participate in the GMS at least 30 days prior to the meeting. The notice is also to be published in the newspaper Rossiyskaya Gazeta.
- Information (materials) on the agenda of the GMS is available on the Company's website at least 20 days prior to the meeting.
- Functions of the Counting Board are performed by the independent registrar of Federal Grid Company.

Annual General Meeting of Shareholders

The 2013 Annual General Meeting of Shareholders (AGM) of Federal Grid Company was held on 27 June 2013.

In accordance with the AGM agenda, the shareholders approved the Company's annual report and annual financial statements, elected the Board of Directors and approved the external auditor for 2014. The shareholders decided not to pay dividends on common shares for 2012, since the Company incurred a loss in the accounting period. The AGM also made a resolution to approve a related party transaction involving Directors' and Officers' liability insurance.

The Minutes of the 2013 AGM are available on our website, **www.fsk-ees.ru**, section **About Us / Corporate Governance / Shareholders Meetings**.

Extraordinary General Meeting of Shareholders

On 11 November 2013, an Extraordinary General Meeting of Shareholders was held which made a resolution on the early termination of powers of the Chairman of the Company's Management Board and on the election of a new Chairman, as well as on the election of the Audit Commission.

The Minutes of the Extraordinary General Meeting are available on our website, **www.fsk-ees.ru**, **About Us / Corporate Governance / Shareholders Meetings** section.

Board of Directors

The Board of Directors is a Company's governing body responsible for the strategic guidance in the name and on behalf of all its shareholders. The Board also supervises the executive bodies and ensures the effectiveness of internal control and risk management systems.

The Board of Directors' full responsibilities are set out in the Articles of Association and are clearly differentiated from those of the General Meeting of Shareholders and the Company's executive bodies. The Board's meetings are held on a regular basis, in accordance with the approved work plan and when the need arises, but at least once every six weeks.

The Board shall include 11 members. Federal Grid Company's Articles of Association provide for obligatory membership of representatives of the Market Council, a non-profit partnership uniting, on a membership basis, electric power industry entities and large electric and thermal energy consumers.

The Company's Board of Directors has a balanced set of knowledge, experience and professional skills required for its effective performance. The Company also aims to maintain a balance on the Board with respect to all shareholders' interests. The Federal Grid Company's Board of Directors includes representatives of minority shareholders and independent directors

Composition of the Board of Directors acting from 29 June 2012 to 27 June 2013

Name	Status	Position (as of the election date)
1. Ernesto Ferlenghi	Non-executive director, Chairman of the Board of Directors	Vice President of Eni S.p.A. (Italy), Head of the Representative Office of Eni (the CIS).
2. Boris Ayuev	Non-executive director	Chairman of the Management Board of JSC System Operator of Unified Energy System
3. Oleg Budargin	Executive director	Chairman of Federal Grid Company's Management Board
4. Boris Kovalchuk	Non-executive director	Chairman of the Management Board of JSC INTER RAO UES
5. Vyacheslav Kravchenko	Independent director	Chairman of the Management Board of Non-Profit Partnership Market Council for the Organisation of an Efficient System of Wholesale and Retail Trade of Electric Energy and Power;
6. Andrey Malyshev	Non-executive director, Deputy Chairman of the Board of Directors	President of JSC Group E4
7. Vladimir Rashevsky	Independent director	General Director, Chairman of the Management Board of JSC SUEK
8. Elena Titova	Independent director	Managing Director, First Deputy Chairman of the Management Board of Morgan Stanley Bank LLC
9. Denis Fedorov	Non-executive director	General Director of JSC Centerenergoholding, General Director of Gazpromenergoholding LLC
10. Rashid Sharipov	Independent director	Deputy General Director of KFK-Consult LLC
11. Ilya Scherbovich	Independent director	President, member of the Management Board of United Capital Partners LLC

Composition of the Board of Directors

Elected by the General Meeting of Shareholders
on 27 June 2013 (as of 31 December 2013). Information about board members is disclosed with their consent.

Oleg Budargin

Chairman of the Board of Directors
General Director of JSC Russian Grids
Federal Grid Board member since 2010

Born in 1960

Education: Norilsk Industrial Institute
(degree in Industrial and Civil Engineering)

From 2007 to 2009 – Assistant to the Plenipotentiary Representative of the Russian President in Siberian Federal District. From October 2009 to November 2013 – Chairman of Federal Grid Company's Management Board.

Positions in governing bodies of other organisations: member of the Supervisory Board of JSC Russian Regional Development Bank; member of the Board of Directors of JSC INTER RAO UES; Chairman of the Supervisory Board of Non-Profit Partnership Association of Solar Energy Enterprises; Chairman of the Board of Directors of JSC Moscow United Electric Grid Company.

Share in the Company's ordinary stock: 0.000644%.

Georgy Boos

President of BOOS LIGHTING GROUP MC LLC
Federal Grid Board member since 2013

Born in 1963

Education: Moscow Power Engineering Institute
in 1986
PhD in Technical Sciences.

From December 2003 to September 2005 – Deputy of the 4th State Duma of the Federal Assembly of the Russian Federation, Deputy Chairman of the State Duma. From September 2005 to September 2010 – Governor of Kaliningrad Region.

Positions in governing bodies of other organisations: member of the Board of Directors of JSC Russian Grids; member of the Board of Directors of JSC Sheremetyevo International Airport.

Holds no shares in the Company.

Pavel Grachev

Independent Director
General Director of Polyus Gold International Limited
Federal Grid Board member since 2013

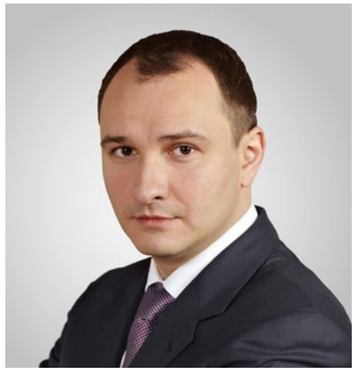
Born in 1973

Education: St Petersburg State University (degree in Jurisprudence)
University of Trieste (Italy) (degree in Jurisprudence)

From 2002 to 2006 – Managing Partner of the Russian branch of the law firm Pavia e Ansaldo. From 2006 to 2011 – Legal Department Head, Managing Director of JSC Nafta Moskva.

Positions in governing bodies of other organisations: Chairman of the Board of Directors of Nafta Moskva (Cyprus) Ltd.

Holds no shares in the Company.



Boris Kovalchuk

Independent Director
Chairman of the Management Board of JSC INTER RAO UES
Federal Grid Board member since 2012

Born in 1977

Education: St Petersburg University (degree in Jurisprudence). Institute of Advanced Training for Executives and Experts of Fuel and Energy Sector Non-profit partnership Corporate Educational and Research Centre of UES.

From 2006 to 2009 – Head of the Department of National Priority Projects of the Russian Government, Assistant to the First Deputy Prime Minister of the Russian Federation. From April to November 2009 – Deputy Director General for Development of State Nuclear Corporation ROSATOM. From November 2009 to June 2010 – Acting Chairman of the Management Board of JSC INTER RAO UES.

Positions in governing bodies of other organisations: Board Chairman of OGK-1, JSC Mosenergosbyt, CJSC Kambaratinskaya Hydro Power Station-1, TGK-3; Board member of JSC St Petersburg Sales Company, Irkutsk JSC of Energy and Electrification, JSC Russian Regional Development Bank; member of the Management Board of the RSPP.

Holds no shares in the Company.

Vyacheslav Kravchenko

Deputy Chairman of the Board of Directors
Deputy Minister of Energy of the Russian Federation
Federal Grid Board member since 2012

Born in 1967

Education: Lomonosov Moscow State University (degree in Jurisprudence).

From 2004 to 2006 – Deputy Director of the Department of Structural and Investment Policy in Industry and Energy of the Ministry of Industry of the Russian Federation. From 2006 to 2008 – Director of the Department of Structural and Investment Policy in Industry and Energy of the Ministry of Industry of the Russian Federation. From 2008 to 2010 – General Director of RN Energo LLC. From 2010 to 2012 – General Director of JSC United Energy Service Company. From 2012 to September 2013 – Chairman of the Management Board of Non-profit Partnership Market Council and Chairman of the Management Board of JSC Trade System Administrator of the Wholesale Energy Market.

Positions in governing bodies of other organisations: Board member of JSC Financial Settlements Centre, JSC Trade System Administrator of the Wholesale Energy Market, JSC INTER RAO UES, JSC Russian Grids, JSC System Operator of Unified Energy System.

Holds no shares in the Company.

Andrey Murov

Chairman of the Management Board of Federal Grid Company
Federal Grid Board member since 2013

Born in 1970

Education: St Petersburg State University (degree in Jurisprudence). Inter-disciplinary Institute of Advanced Training and Retraining for Executives (a special retraining course in Financial Management). State University of Civil Aviation (degree in Freight Regulation and Air Transport Management). PhD in Economics.

From 2007 to 2012 – General Director of JSC Pulkovo Airport. From 2012 to November 2013 – Deputy General Director, Acting General Director, Executive Director, member of the Management Board of JSC Holding of the Inter-regional Distribution Grid Companies (since 04.04. 2013 – JSC Russian Grids).

Positions in governing bodies of other organisations: Chairman of the Board of Directors of JSC Inter-regional Distribution Grid Company of the North-West; member of the Board of Directors of JSC Russian Grids.

Holds no shares in the Company.

Sergey Serebryannikov

Independent Director
Department Head, Professor of Moscow Power Engineering Institute
Federal Grid Board member since 2013

Born in 1952

Education: Electromechanical Faculty of Moscow Power Engineering Institute (degree in Insulating and Cable Engineering). PhD in Technical Sciences.

From 2004 to 2005 – Pro-Rector for Research of Moscow Power Engineering Institute (Technical University).

From 2005 to March 2013 – Rector of Moscow Power Engineering Institute.

Holds no shares in the Company.

Denis Fedorov

Independent Director
General Director of JSC Centerenergoholding
Federal Grid Board member since 2011

Born in 1978

Education: Bauman Moscow State Technical University (degree in Economics and Management). Moscow Power Engineering Institute (degrees in Economics and Industrial Heat Power Engineering (postgraduate studies)). PhD in Economics.

From 2003 to 2006 – Head of the Department of Investment Technologies and Technological Projects of EuroSibEnergo-Engineering LLC and the Investment Department of Corporation Gasenergoprom LLC. From February 2006 to April 2007 – Adviser to the General Director of Mezhregiongas LLC. From 2006 to 2008 – General Director of JSC Mezhregionenergosbyt. From 2007 – Head of the Department of Electric Power Sector Development and Marketing in Power Generation of JSC Gazprom. From 2009 – General Director of GazpromEnergoholding LLC.

Positions in governing bodies of other organisations: member of the Management Board of CJSC FortisEnergy; Board Chairman of JSC Second Generating Company of the Wholesale Electricity Market, JSC Tumen Energy Service Company, Non-Profit Partnership Council of Power Producers; Board member of JSC Mosenergo, JSC INTER RAO UES, Heat Retail Company LLC, Non-Profit Partnership Centre of Innovative and Energy Technologies.

Holds no shares in the Company.

Ernesto Ferlenghi

Head of the Representative Office of Eni (the CIS)
Federal Grid Board member since 2008;
Board Chairman from 2011 to 2013

Born in 1968

Education: University of Rome Tor Vergata (Faculty of Mathematics Physics and Natural Science)

From 2003 to 2004 – Regional Director of Eni for Kazakhstan, Regional Manager of Agip Caspian Sea and Agip KCO in Astana, Kazakhstan. From 2005 – Vice President of Eni S.p.A.

Positions in governing bodies of other organisations: Board member of Eni Energy LLC and JSC Russian Grids. Honorary Consul of the Republic of Italy in Russia.

Holds no shares in the Company.

Sergey Shmatko

Special Representative of the President of the Russian Federation on International Cooperation in the Electric Power Industry.
Federal Grid Board member from 2008–2010 and since 2013

Born in 1966

Education: Ural State University (Faculty of Political Economy). Marburg University in the FRG (Economy). Russian Federation of the Military Academy of the General Staff of Armed Forces of the Russian Federation (Advanced Academic Courses in Defence and Security). PhD in Technical Sciences

From June 2008 to May 2012 – Minister of Energy of the Russian Federation. In June 2012, by presidential decree, was appointed a member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security of the Russian Federation.

Positions in governing bodies of other organisations: Chairman of the Board of Directors of JSC Russian Grids; Chairman of the Supervisory Board of Non-Profit Partnership Scientific and Technological Council of Unified Energy System; Board member of JSC AK Transneft

Holds no shares in the Company.

Nikolay Shulginov

First Deputy General Director of JSC SO UES
Federal Grid Board member since 2013

Born in 1951

Education: Novocherkassk Polytechnic Institute.
PhD in Technical Sciences.

From 2002 to 2004 – member of the Management Board, Director on Technical Audit of JSC System Operator – Central Dispatch Administration of Unified Energy System (SO – CDA UES).

Positions in governing bodies of other organisations: member of the Supervisory Board of Non-Profit Partnership Scientific and Technological Council of Unified Energy System.

Share in the Company's ordinary stock: 0.000809%

In 2013, the Board of Directors held 25 meetings, of which two were in the form of joint presence, and considered 261 issues.

Board of Directors' Performance Report on the Company's Business Priorities

In 2013 the Board of Directors' activities were focused on creating favorable conditions for achieving the Company's strategic objectives and for further strengthening of its electric power infrastructure.

Federal Grid's achievements in the reporting year became possible, to a large extent, because of the well coordinated efforts of the Board of Directors and the Company's management aimed at overcoming impacts of uncertainty on financial markets and slowdown in economic growth on the Company and the whole industry.

One should note strong cooperation of the Board and the Company's executives on key issues of its business operations, managing its share capital and subsidiaries and associates.

In 2013, the Board of Directors held 25 meetings, of which two were in the form of joint presence, and considered 261 issues.

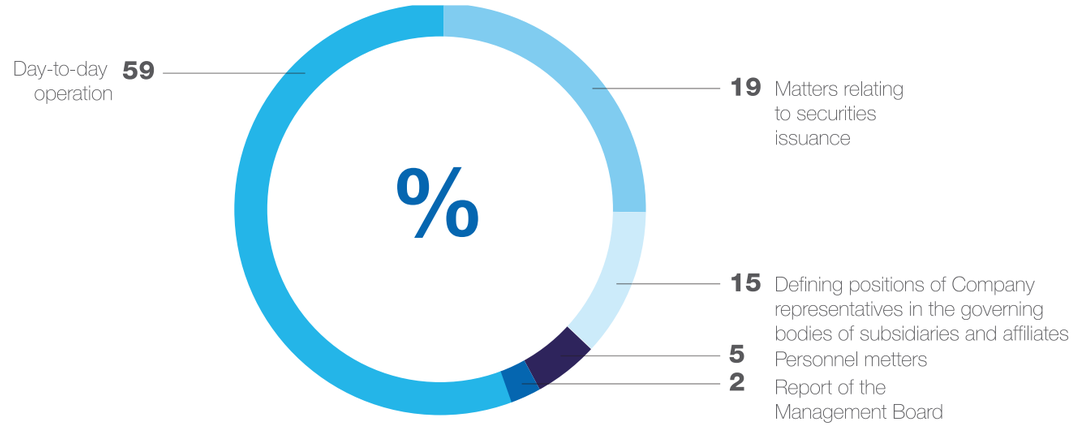
During the reporting period, the Board of Directors adopted the following documents:

- Federal Grid Insurance Program for 2014
- Federal Grid Regulations on the Credit Policy (amended version)
- Calculation method and target values for a key performance indicator (KPI) - Meeting Schedules of Technological Connection - to be included in a KPI structure for the Chairman of the Company's Management Board and the Heads of branches involved in technological connection
- Regulations of Russian Grids on Uniform Technical Policy in Electric Grid Sector.

The Board made the following key decisions:

- Approval of a long-term electro-technical supply agreement with Siemens Transformers LLC, which provides production to be localised in Russia and aims to support and develop production of high-technology transformer equipment conforming to up-to-date technical specifications
- Pre-approval of transactions which may entail liabilities denominated in foreign currency
- Resolution on expediency of the 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 Programme
- Resolution on placement of non-convertible interest-bearing certified bearer bonds with mandatory centralised custody of Series 30-39
- Resolution on increase of the Company's share capital by additional issue placement
- Approval of the Company's business plan for 2014 and key targets for 2015-2018
- Setting Federal Grid's procurement policy with respect to facilitating access to procurement for of small and medium-sized enterprises.

The structure of issues considered by the Board of Directors in 2013*



** This structure does not include 151 issues of related party transactions' approval*

For more details on the Company performance see Section **Performance Overview** of the Report (p. 34)

Committees of the Board of Directors

The committees of the Company's Board of Directors are established to hold preliminary discussions on the most important matters that fall within the Board's competence and in order to develop recommendations for the Board on these matters. The Committees' work shall enhance the efficiency and effectiveness of the Board of Directors' performance.

When appointing members to the committees the Board of Directors is guided by the need to include individuals with extensive experience and expertise in the relevant areas, and follows the stock market requirements imposed on issuers whose securities are included in Quotation Lists A and B.

Federal Grid's Board of Directors has four committees: for Audit, HR and Remuneration, Strategy, and Investment. Activity of the committees is regulated by the respective Regulations approved by the Board of Directors.

HR AND REMUNERATION COMMITTEE

Key functions

- Development of principles and criteria for remuneration and material incentives of members of the Board of Directors, the Management Board and the Audit Commission
- Development of recommendations regarding the material terms and conditions of contracts with members of the Board of Directors, the Chairman and members of the Management Board
- Development of criteria for selecting potential nominees to the Board of Directors, the Management Board and preliminary evaluation of the said candidates
- Regular assessment of performance of the Chairman and members of the Management Board, and drafting recommendations to the Board of Directors regarding their possible reappointment

Membership

During the period from 11 September 2012 to 27 June 2013, the Committee comprised the following members:

1. Denis Fedorov, Chairman
2. Elena Titova, Independent Director
3. Ilya Scherbovich, Independent Director

On 28 November 2013, the following members were appointed to the Committee by the Board of Directors:

1. Denis Fedorov, Chairman, Independent Director
2. Boris Kovalchuk, Independent Director
3. Sergey Serebryannikov, Independent Director

Activities in 2013

The Committee held two meetings, and the following issues were considered:

- Approval of the Committee work plan for H1 2013
- Recommendations to the Board of Directors to approve the Report on the KPIs' achievement in H2 2012 and 2012

AUDIT COMMITTEE

Key functions

- Evaluation of candidates for the Company's external auditors and drafting recommendations to the Board of Directors regarding the appointment of external auditors, the conduct of annual independent audit and external auditors' fees
- Review of the Company's financial statements and results of the external audit of the financial statements with respect to their compliance with RF legislation, International Financial Reporting Standards, Russian Accounting Standards, other legal regulations
- Evaluation of the Company's internal control system
- Approval of internal audit plans in the Company

Membership

During the period from 11 September 2012 to 27 June 2013, the Committee comprised the following members:

1. Rashid Sharipov, Chairman, Independent Director
2. Elena Titova, Independent Director
3. Denis Fedorov
4. Vladimir Rashevsky, Independent Director
5. Ilya Scherbovich, Independent Director

On 28 November 2013, the following members were appointed to the Committee by the Board of Directors:

1. Denis Fedorov, Chairman, Independent Director
2. Boris Kovalchuk, Independent Director
3. Sergey Serebryannikov, Independent Director

Activities in 2013

The Committee held five meetings and considered a number of important issues, including:

- Review of the external auditor's report on Federal Grid Company Group interim consolidated IFRS financial statements for 6 months of 2012
- Recommendations to the Board of Directors with respect to preliminary approval of the Company's Annual Report 2012 and its submission to the General Meeting of Shareholders
- Recommendations to the Board of Directors on issues of preparation and holding the 2013 Annual General Meeting of Shareholders
- Review of the external auditor's opinion on 2012 financial statements and recommendations regarding a candidate for external auditor
- Recommendations to the Board of Directors to approve the Directors' and Officers' liability insurance contract, which was a related party transaction
- Review of the report on insiders' dealings in the Company's securities
- Recommendations to the Board of Directors to approve the Strategy of Federal Grid Company's internal control system development
- Recommendations to the Board of Directors regarding the external auditor's fees for 2013

STRATEGY COMMITTEE

Key functions

- Consideration of and making recommendations to the Board of Directors on the following issues:
- Measures and programmes for the development of the Unified Energy System (UES) of Russia, including developing the Unified National (all-Russian) Electric Grid (UNEG), including isolated energy systems
- Measures to carry out technological connections to the electric grids
- Processes related to the effective functioning of the wholesale electric energy market, the technological management of electric grids that are part of the UES of Russia
- Control over implementation of investment projects to develop electric grids and the UES of Russia
- Information disclosure by a subject of natural monopoly in the electric power industry
- Other issues related to the development of UNEG

Membership

During the period from 11 September 2012 to 27 June 2013, the Committee comprised the following members (positions are indicated as of the appointment date) :

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

On 31 January 2014, the Company's Board of Directors appointed 17 new members of the Strategy Committee, including three Board members (Vyacheslav Kravchenko – the Committee Chairman, Nikolay Shulginov and Ernesto Ferlenghi), and 14 external experts.

Activities in 2013

The Committee held two meetings. The most important issue among those considered within the reporting period was the Development Strategy of JSC Russian Grids which was discussed during the joint meeting of the Company's Strategy Committee and the Strategy Committee of Russian Grids' Board of Directors. The recommendations were made to improve the document with consideration of the Committee members' opinions.

INVESTMENT COMMITTEE

Key functions

- Expert evaluation of new investment projects and programmes, submitted for consideration of the Company's Board of Directors
- Timely informing of the Company's Board of Directors about risks in the area of investment activity, to which the Company and its subsidiaries and associates are subjected
- Making recommendations to the Company's Board of Directors on issues that fall under the competence of the Committee

Membership

During the period from 11 September 2012 to 27 June 2013 the Committee comprised the following members (positions are indicated as of the appointment date) :
1. Andrey Malyshev, Chairman of the Investment Committee, member of the Board of Directors of JSC GROUP E4
2. Alexander Ilyenko, Director for Assets Management of JSC SO UES
3. Roman Berdnikov, First Deputy Chairman of the Management Board of JSC FGC UES
4. Andrey Murov, Deputy Chairman of the Management Board of JSC FGC UES, Chairman of the Management Board of Non-Profit Partnership Market Council
5. Valery Goncharov, Deputy Chairman of Federal Grid Company's Management Board
6. Vyacheslav Kravchenko, Chairman of the Management Board of Non-Profit Partnership Market Council
7. Ilnar Mirsiyapov, member of the Management Board, Head of Strategy and Investment Unit of JSC INTER RAO UES
8. Sergey Serebryannikov, Rector of Moscow Power Engineering Institute
9. Alexander Rogov, Head of the Energy Sector Development Department at the Energy Sector and Energy Marketing Development Division of JSC Gazprom
10. Vladimir Fortov, Member of the Presidium of the RAS
11. Andrey Naryshkin, Deputy Chief of Staff of the Chairman of the Board of Directors of JSC FGC UES
12. Sergey Vasilyev, Director of the Department of Electric Power Industry Development of the Russian Ministry of Energy

On 31 January 2014, the Company's Board of Directors appointed 17 new members of the Investment Committee, including two Board members (Sergey Shmatko – the Committee Chairman, and Ernesto Ferlenghi), 2 Company officers and 13 external experts.

Activities in 2013

The Committee held two meetings. The recommendations were made to the Board regarding approval of the Company's Investment Programme for 2013 and the draft Investment Programme for 2014–2018.

Attendance of Board members at Board meetings and Committee meetings during 2013

Board member	The Board of Directors	Investment Committee	Strategy Committee	HR and Remuneration Committee	Audit Committee
Board members during the year 2013					
Oleg Budargin	96%				
Boris Kovalchuk	72%				
Vyacheslav Kravchenko	92%	50%	100%		100%
Denis Fedorov	100%			100%	100%
Ernesto Ferlenghi	96%				
Board members until 27 June 2013					
Boris Ayuev	100%				
Andrey Malyshev	100%	100%	100%		
Elena Titova	57%			100%	100%
Vladimir Rashevsky	71%				75%
Rashid Sharipov	50%				100%
Ilya Scherbovich	100%			100%	100%
Board members since 27 June 2013					
Georgy Boos	55%				
Pavel Grachev	81%				
Andrey Murov	100%				
Sergey Serebryannikov	100%				100%
Sergey Shmatko	100%				
Nikolay Shulginov	100%				

Management Board

The Management Board and the Chairman of the Management Board – collective and sole executive bodies – are responsible for the day-to-day operations of the Company and the implementation of the strategy established by the Board of Directors and the shareholders.

The competence of the Chairman of the Management Board includes all matters of day-to-day management of the Company apart from those reserved to the General Meeting of Shareholders, the Board of Directors and the Management Board.

The Management Board's competence covers the following matters:

- Development of the Company's business priorities and the respective implementation plans
- Reporting on execution of decisions made by the General Meeting of Shareholders and the Board of Directors
- Addressing other matters of the Company's day-to-day operations in accordance with the decisions of the General Meeting of Shareholders and the Board of Directors, as well as other matters referred to the Management Board by the Chairman of the Management Board

Composition of Management Board

During 2013, substantial changes were made to the composition of the Management Board.

On 29 August 2013, the Board of Directors made a decision to terminate the authorities of the First Deputy Chairman Andrey Cherezov, who was a Chief Engineer, and appointed Vladimir Dikoy to this position.

The authority of Oleg Budargin, the Chairman of the Company's Management Board, was terminated by a resolution of the Extraordinary Meeting of Shareholders on 11 November 2013, and Andrey Murov was appointed as the new Chairman.

On 28 November 2013, the authorities of the following Management Board members were terminated by the Board of Directors: Roman Berdnikov, Nikolay Varlamov, Yuriy Mangarov and Sergey Sergeev.

The following new members of the Management Board were appointed: Valery Goncharov, Maria Tikhonova, Dmitry Shishkin and Leonid Mazo.

Composition of the Management Board as of 31.12.2013

Information about the Management Board members is disclosed with their consent.

Andrey Murov

Chairman of the Management Board
Member of the Management Board since 2012

Born in 1970

Education: St Petersburg State University (degree in Jurisprudence). Inter-disciplinary Institute of Advanced Training and Retraining for Executives (a special retraining course in Financial Management). State University of Civil Aviation (degree in Freight Regulation and Air Transport Management). PhD in Economics.

From 2007 to 2012 – General Director of JSC Pulkovo Airport. From 2012 to November 2013 – Deputy General Director, Acting General Director, Executive Director, member of the Management Board of JSC Holding of the Inter-regional Distribution Grid Companies (since 04.04. 2013 – JSC Russian Grids).

Positions in governing bodies of other organisations: Chairman of the Board of Directors of JSC Inter-regional Distribution Grid Company of the North-West; member of the Board of Directors of JSC Russian Grids.

Holds no shares in the Company.

Valery Goncharov

First Deputy Chairman of the Management Board
Member of the Management Board since 2013

Born in 1963

Education: Leningrad Shipbuilding Institute in 1987. PhD in Economics.

From 1998 to 2000 – Finance Director of State Enterprise Fuel and Energy Complex of St Petersburg. From 2000 to 2001 – General Director of CJSC Lenteplosnab. From 2001 to 2004 – Chairman of the Regional Energy Commission of the Administration of St Petersburg. From October 2004 to June 2005 – Deputy Minister of Regional Development of Russia. From 2005 to 2006 – Deputy Director for Economics and Finance of TGK-1. From December 2006 – Deputy Director for Economics and Finance of JSC Roszheldorproject. From June 2012 – General Director of JSC Roszheldorproject.

In July 2012, was appointed Deputy Chairman of the Management Board of JSC FGC UES. Since 13 November 2013 – First Deputy Chairman of the Management Board of JSC FGC UES. Member of the Company's Management Board since 28 November 2013.

Holds no shares in the Company.

Andrey Kazachenkov

First Deputy Chairman of the Management Board
Member of the Management Board since 2010

Born in 1980

Education: St Petersburg State Engineering and Economic University (degrees in Management and Economics and Management in Engineering Industry).

MBA at the University of Wisconsin (Madison, USA)

Special programmes in Economics and Finance at The IMD (Switzerland) and INSEAD (France) business schools

From 2004 – Adviser to Finance Director, Deputy Finance Director of JSC Lenenergo. From 2005 – Head of Corporate Finance Department of JSC OGK 1. From October 2009 – Adviser to the Chairman of the Management Board of JSC FGC UES. From November 2009 – Deputy Chairman of the Management Board of JSC FGC UES. From May 2012 – First Deputy Chairman of the Management Board of JSC FGC UES.

Positions in governing bodies of other organisations: Chairman of the Board of Directors of JSC Lenenergo, Deputy Chairman of the Board of Directors of JSC Moscow United Electric Grid Company.

Share in the Company's ordinary stock: 0.000552%.

Vladimir Dikoy

Deputy Chairman of the Management Board – Chief Engineer
Member of the Management Board since 2013

Born in 1954

Education: Moscow Power Engineering Institute (degree in Electric Power Supply of Industrial Enterprises, Cities and Agriculture). PhD in Technical Sciences.

From 1997 to 2002 – Chief Engineer, First Deputy Director of territorial subdivision of JSC RAO UES of Russia – Central Interconnected Electric Grids, Head of the Electric Grids Department of JSC RAO UES of Russia. From 2002 to 2009 – Head of the Electric Grids Department, Head of the Department of Regional Management of Federal Grid Company, Deputy Director General for Production of JSC Glavsetservice of UNEG. From 2009 to 2013 – Deputy Chief Engineer of Federal Grid Company.

Positions in governing bodies of other organisations: member of the Board of Directors of JSC Glavsetservice of UNEG and JSC Tomsk Transmission System.

Share in the Company's ordinary stock: 0.0000220534%.

Maria Tikhonova

Deputy Chairman of the Management Board
Member of the Management Board since 2013

Born in 1980

Education: Volga-Vyatka Academy of Public Service (degree in Public and Municipal Administration, Higher School of Economics with MBA Finance). PhD in Economics.

From 2003 to 2005 – engineer of JSC Nizhnovenergo. From 2005 to 2008 – specialist, Deputy Head of Property Relations Department of Fuel and Energy Complex of the Federal Energy Agency. From 2008 to 2012 – held senior management positions at the Ministry of Energy of the Russian Federation, including the position of Department Head for Corporate Management, Pricing, Control and Audit in the Fuel and Energy Complex. From October 2013 – Deputy Chairman of the Management Board of JSC FGC UES.

Positions in governing bodies of other organisations: member of the Board of Directors of JSC Institute Energosetproekt, member of the Audit Commission of JSC RusHydro.

Holds no shares in the Company.

Leonid Mazo

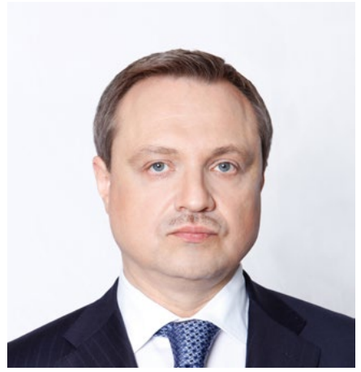
Deputy Chairman of the Management Board
Member of the Management Board since 2013

Born in 1977

Education: Moscow State University, Russian Academy of Public Service (a professional retraining course). PhD in Economics.

From 2001 to 2008 – Chief of the Secretariat of the First Deputy Chairman of the Government of Moscow Region. From 2008 to 2009 – held senior positions in Expostroy, Planstroyexpo and Energocentre. From 2009 to 2011 – Deputy General Director for sales and service development of JSC MOESK. In 2011 – Deputy General Director for Strategy and Development of JSC Technopromexport From 2011 to 2012 – Deputy Executive Director for Development and Client Relations, Deputy General Director of JSC IDGC Holding. From 2012 to 2013 – General Director of Moscow Cable Grids, a branch of JSC MOESK. From August 2013 – General Director of JSC Centre for Engineering and Management of Construction of the Unified Energy System.

Holds no shares in the Company.



Dmitry Shishkin

Internal Control Director
Member of the Management Board since 2013

Born in 1967

Education: Higher School of the KGB of the USSR named after Dzerzhinsky (degree in Jurisprudence)

From 1985 to 2009 – served in the Armed Forces of the Russian Federation. From 2009 to 2012 – Deputy Director for Security of Gazprom EP International Services B.V., Moscow. From February to October 2013 – Security Director of JSC Moscow Unified Electric Grid Company.

Holds no shares in the Company.

Vladimir Shukshin

Member of the Management Board since 2012

Born in 1959

Education: State Central Institute of Physical Culture, FSB Academy of the Russian Federation. Russian Academy of Public Service under the President of the Russian Federation. Ph.D in Political Science.

From 1998 to 2005 – Adviser to the Mayor of Moscow. From 2005 to 2010 – Deputy Chief of Staff of the Mayor and Moscow Government. From October 2010 to 2011 – Deputy Mayor of Moscow in Moscow Government for coordination and work with law enforcement agencies. From January to June 2012 – Deputy General Director for Security of JSC IDGC Holding. From June 2012 to May 3013 – Deputy Chairman of the Management Board of JSC FGC UES. From April 2013 – Deputy General Director for Security of JSC Russian Grids.

Positions in governing bodies of other organisations: Chairman of the Board of Directors of JSC IDGC of North Caucasus.

Holds no shares in the Company.

Valery Sedunov

Member of the Management Board since 2012

Born in 1950

Education: Ivanovo Power Engineering Institute (degree in Production Automation and Electric Power Distribution).

From 2002 – First Deputy Director General – Chief Engineer, General Director of the branch of Federal Grid Company – MES Centre.

Share in the Company's ordinary stock – 0.000027%

In the reporting year, there were no dealings in the Company's securities by the Chairman and members of the Management Board.

Activities of the Management Board in 2013

In 2013, the Management Board held 83 meetings and considered issues on Federal Grid Company's business priorities and perspective business plans, as well as other issues related to the Company's day-to-day operations in accordance with the decisions of the General Meetings of Shareholders and the Board of Directors.

Key Performance Indicators

The KPIs, their target values and calculation methods are subject to approval by the Company's Board of Directors. The targets are set with consideration of aims and objectives stated in the RF Electric Grid Complex Development Strategy.

KPI's Target and Actual Values in 2013 , annual

	2013 Target	2013 Actual
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, not less	10%	10.25%
Efficient implementation of the Cost Management Programme (CMP), not less	10%	13.8%
EBITDA, RUB million, not less	91.037	96.297
No major accidents	0	0
Electric energy losses in the grid used by Federal Grid Company to provide electricity transmission services, not less	4.48%	4.28%
Meeting schedules for commissioning power facilities and implementing plans for financing and disbursing capital investments, not less	90%	99.6%

KPI's Target and Actual Values in 2013, semi-annual

	2013 Target		2013 Actual	
	First half of the year	Second half of the year	First half of the year	Second half of the year
No fatal workplace injuries or group accident with at least one person severely injured	0	0	0	0
Financial stability indicator, i.e. the financial leverage ratio	1.5	1.5	0.33	0.44
Meeting schedules for financing and implementing investment programmes on a cumulative total from the beginning of the year, not less	90%	90%	99.2%	99.57%
Average duration of energy transmission interruptions, hours/connection points, ea	-	0.0475	-	0.0199

Remuneration of the governing bodies

Federal Grid's Remuneration Policy is based on our understanding of an efficient motivation system to be one of the main conditions for improving the performance of members of the Board of Directors and the Company's senior executives.

Board of Directors

The Director's remuneration criteria are set by the Regulations on Remuneration and Compensation by members of the Board of Directors of Federal Grid Company, as approved by the Annual General Meeting of Shareholders on 29 June 2012.

The amount of remuneration to each Board member for his/her contribution to the operations of the Board of Directors depends on the following factors:

- total number of Board of Directors' meetings held during the previous corporate year;
- number of meetings attended by the Board member; and
- the Company's revenues for the respective fiscal year.

Remuneration for the Chairman of the Board of Directors is increased by 30%. Increase is 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%.

Compensation for expenses of members of the Board of Directors is not provided.

The total remuneration for each Board member, given all premiums, cannot exceed RUB900,000.

Since the Company incurred a loss for the 2012 fiscal year, the 2013 GMS resolved to pay no remuneration to the Board of Directors.

Committees of the Board of Directors

Payment of remuneration to members of the committees of the Board of Directors is made based on the Regulations on Remuneration of Members of the Committees of the Board of Directors of Federal Grid Company, as approved by the Board of Directors on 16 December 2010.

The above Regulations do not apply to committee members who are members of the Board of Directors, or members of the collective executive body and/or the sole executive body of the Company.

On a quarterly basis, committee members shall be paid remuneration for each meeting attended. The amount of remuneration is equal to three minimum monthly wage rates for a first category worker. Remuneration to the Chairman of the Committee is increased by 50%.

The total amount of remuneration paid to members of the Board committees in 2013 was RUB342,600.

Management Board

Payments to the Company's senior executives are regulated by Federal Grid's internal documents and depend on achievement by him or her of individual key performance indicators (KPIs).

Details on remuneration, benefits and compensation paid to members of the Company's Management Board, including the chief executive officer (CEO), in 2013 (RUB thousand)*

Remuneration for contributions to the Management Board's operations	0
Salary	84,409
Bonuses	157,901
Commission	0
Benefits	0
Other types of remuneration	262,845
TOTAL	**505,155**

** Including remuneration paid to all members of the Management Board in 2013 taking into account changes in the composition of the Management Board.*

Details on remuneration, benefits and compensation paid to the Company's chief executive officer (CEO), in 2013 (RUB thousand)*

Remuneration for contributions to the Management Board's operations	0
Salary	19,884
Bonuses	29,498
Commission	0
Benefits	0
Other types of remuneration	19,889
TOTAL	**69,271**

** Including remuneration paid to all persons who performed functions of the Company's Chief Executive Officer in 2013*

Control System

Internal Control and Risk Management

Main principles of Internal Control and Risk Management System Operation

The Federal Grid's Internal Control System (ICS) is an integrated part of the Company's governance system administered by the authorised bodies and officers. Our Internal Control System has been designed to ensure:

- implementation of the State policy regarding the Electric Power Industry;
- security, effectiveness and efficiency of business activity of the Company and its subsidiaries and associates;
- reliability of all types of reporting of the Company and its subsidiaries and associates;
- compliance with applicable Russian laws and internal regulations of the Company.

To ensure the ICS's effective operation and the achievement of the Company's objectives, the Board of Directors approved the Regulations on Internal Control System of Federal Grid Company (minutes No. 170 dated 3 August 2012).

The above ICS Regulations set the objectives, tasks and operating principles of the Internal Control System, as well as the structural components of the internal control framework including the risk management system. According to the Regulations, the risk management system includes:

- analysis of business processes aimed to identify events that can negatively affect the achievement of the Company's goals;
- risk assessment with regard to their significance and probability;
- planning of risk treatment actions.

In order to give effect to the provisions set by the ICS Regulations regarding the risk management system, the Company's CEO has approved the following documents

- Risk Management Policy;
- Procedure for Applying the Risk Management Policy.

The above documents set tasks and objectives of the risk management system, its processes (elements), including the procedures for risk identification and assessment, planning of risk management actions and risk reporting.

In accordance with the Risk Management Policy the major objective of the risk management system is to reduce risks to an acceptable level set by the Company's Management Board. Federal Grid's Risk Management Policy is aimed at improving the Company's short and long-term performance, as well as ensuring the sustainable and continuous operation and development of the Company through the timely identification, assessment and treatment of risks that threaten its efficient economic operation and good standing, the health of its employees, the environment and the property interests of shareholders and investors.

Participants in Federal Grid's Internal Control System

BOARD OF DIRECTORS	MANAGEMENT BOARD CHAIRMAN	AUDIT COMMITTEE	AUDIT COMMISSION
Builds up the Internal Control System, sets its policy and monitors performance of the ICS, considers results of financial and operational audits conducted by the Audit Commission, evaluates the effectiveness of the ICS	Provides organisational support and scheduling of internal controls, makes decisions based on the outcomes of the controls, and makes proposals to the Board of Directors regarding the improvement of internal control procedures	Evaluates the Company's Internal Control System, develops recommendations to the Board of Directors on its further improvement; performs the Company's financial statement analysis and the analysis of the external audit results; assesses candidates for the position of the Company's auditor	Confirms the reliability of data contained in the Company's annual report, accounting balance sheet, and profit and loss statement; performs audits of the Company's financial and operational activities

INTERNAL CONTROL AND RISK MANAGEMENT DEPARTMENT*	OTHER SPECIAL-PURPOSE CONTROL UNITS
Plans and performs audits of business processes, governance system, internal control and risk management system, and organisation design of the Company and its subsidiaries and associates. Plans and performs audits of financial and operational activities of the Company and its subsidiaries and associates. Plans and performs construction audit and review of projects within the Company's investment programmes. Analyses risks and operational and investment efficiency enhancement potentials in the course of long-term planning of operating and investing activities. Organises effective internal control and risk management system, evaluates the effectiveness of risk management in the Company and its subsidiaries and associates. Plans and conducts audit of information systems, identifies and assesses risks of IT Strategy implementation and operation.	Special-purpose control units perform control functions in respective responsibility areas in accordance with the internal regulations approved in the Company

** in accordance with the Company's organisational structure in 2013*

CONTROL PROCEDURE OWNERS

STRUCTURAL DIVISIONS AND CONTROL PROCEDURE OWNERS

Organise and implement control procedures within business processes in accordance with job descriptions and provisions of the Company's regulatory and administrative documents

Authorities and Responsibilities of the Participants of the Risk Management System

Management Board	Considers and approves a Risk Matrix, Risk Summary and risk minimisation actions
Risk Owners members of the Management Board, Deputy Chairmen of the Management Board and the Heads of the Company's structural units	Ensure efficient risk management including risk identification and assessment, and provision in the budget and business-plans of the amounts required for financing the risk management actions
Owners of Control Procedures Staff of the Company's structural units	Organise and implement control procedures within the business processes Identify and assess risks, plan and implement on reducing risk probability and/or risk implications
Internal Control and Risk Management Department	Plans and performs internal audit of the risk management system Analyses risk factors and operational and investment efficiency enhancement potentials in the course of long-term planning of operating and investing activities Organises the risk management system and evaluation of its efficiency

Following the results of the control conducted by the Audit Chamber of the Russian Federation at the Federal Grid's facilities aimed to evaluate the efficiency of handling public funds when preparing for the 2014 Winter Olympics and Paralympics in Sochi and developing the city of Sochi as an alpine climatic resort, the Company issued a Decree No 785 dated 26 December 2013 which provides for the review of the regulations and administrative documents of the Company and its subsidiaries that regulate the existing internal control system. The above document also provides for drafting and submitting for the approval of the Chairman of the Management Board the Programme for improving the quality of the Company's internal control system. In 2014, measures are expected to be implemented aimed at improving the Internal control and risk management system of Federal Grid Company.

Key Risk Factors and Information about Risk Management Actions

RISK DESCRIPTION	RISK IMPACT	RISK MITIGATION ACTIONS
Industrial risks		
Operational and technological risks Risks are related to high physical wear and obsolescence of electricity grid assets, violations of service conditions and operational regimes of electric grid equipment, damages of equipment, wrong performance of relay protection of automatic controls and automatic emergency response system, the use of inefficient and obsolete technologies and failure to implement the repairs programme in full. Operational and technological risks are also related to possible emergency situations at the grid facilities due to natural disasters (hurricanes, rain storms, icy rains, high river water, river floods, snow blocks, etc.)	System-wide interruptions in performance and failures to supply electricity to customers, either due do equipment failures or to natural disasters could eventually cause significant economic and reputational losses for the Company. Besides, they could affect the volume of losses in its electric grids.	• Implementation of the corporate Investment Programme, which includes projects that aim to achieve the following goals: – Reduce the degree of wear of fixed assets – Renovate electric grid facilities – Ensure delivery of capacity by power plants and reliability of cross-regional electric power exchanges – Upgrade switchgear equipment – Upgrade and develop automated process control systems – Improve grid manageability and observability – Clear the routes for overhead transmission lines (OHTLs) – Improve energy efficiency – Expand the pool of backup electric power sources, vehicles and special-purpose machinery for post-accident repairs • Implement maintenance and repair plans and targeted programmes for the replacement of obsolete OHTLs and equipment at substations • Oversee implementation and update of Regulation of JSC Russian Grids on the Unified Technical Policy in the Electric Grid Complex • Educate, oversee and certify employees who run process equipment • Conduct emergency response drills and onsite inspections in the Company's branches • Operations of permanent duty teams in the regions. These teams are to conduct emergency and recovery work at the grid facilities. Establish emergency reserve of equipment • Implement the Property Insurance Protection Programme • Operations of the Company's branch, i.e. Technical Supervision Centre, which was established to maintain current technical supervision over the condition of the Company's energy facilities and technical supervision at facilities that are under upgrade, technical renovation and at newly constructed facilities. Improving reliability (p. 41) Investment activities (p. 57)

RISK DESCRIPTION	RISK IMPACT	RISK MITIGATION ACTIONS
Risk of employee injury at the Company's facilities, resulting in damages to health or death	The Company's health and safety system is effectively achieving objectives whereby employees develop skills of safe behaviour in the workplace and dangerous situations are prevented, thus minimising the risk of accident.	• Take actions to raise the level of health and safety at the Company's facilities • Develop and update internal rules and regulations pertaining to health and safety and employee injury prevention in the Company. Industrial safety (p. 117)
Environmental risks		
The environment may be adversely affected by emergency situations that are caused by the physical wear of electric grid infrastructure facilities or the violation of their operational conditions. The Company's equipment contains trichlordiphenyl, which may in some cases pollute the environment and cause injury to employees and the public.	The Company may be fined if it violates Russian environmental law. Government controlling authorities can impose sanctions on the Company if it violates the procedures of usage, storage or disposal of trichlordiphenyl-containing equipment. The likelihood of these risks is assessed as very low.	• The Company's Environmental Policy approved by the Board of Directors is the tool of environmental risk mitigation • The design of any new facility involves the drafting of a special environmental section that takes into account all requirements of Russian environmental protection laws • All projects for construction and renovation of power grid facilities undergo environmental due diligence by the State authorities • The Company implements a targeted programme of full decommissioning and detoxification of trichlordiphenyl-containing equipment • Work is in progress to gradually involve all Company branches in the existing system of environmental management and subsequent issue of certificates of consistency with international standard ISO 14001:2004 "Environmental Management System". Environment (p. 120)
Industry risks		
Risk related to government tariff regulation (changes in the tariff decisions or parameters of tariff regulation) The Company derives its main income from payments for electric power transmission services via UNEG. The size of these payments is based on tariffs that are approved by the Federal Tariff Service of Russia as rates for maintenance of the power grid facilities that are integrated with UNEG, and rates of rules-based technological losses of electric power in UNEG in the Russian regions. • Restrictions on the growth of tariffs on power transmission via UNEG and revi	Factors that cause the risk of limitation on sources of tariffs for the Company's operations and investments: • According to the Social and Economic Outlook for 2012–2014 that was approved by the Russian Government, a decision was taken to postpone 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 in order to curb the growth of prices and tariffs on goods (services) of natural monopolies in 2012–2014 • Based on the outcomes of the 2013 St Petersburg Economic Forum, the President of the Russian Federation signed several orders aimed at curbing the growth of tariffs of natural monopolies for a five-year period • On 19 November 2013, the Russian Government approved an Action Plan to cap the final cost of goods and services provided	• Management of risks related to tariff regulation implies a further implementation of actions that aim for higher operational and investment efficiency. • The Company approved a large-scale cost-cutting programme with the following objectives: – To cut the costs of information services – To optimise the costs of facility maintenance, including the costs of utilities – To reduce the costs of leasing office space – To reduce the costs of business travel – To reduce the costs of insurance in tender-based contract awards – To reduce the costs of the operational programme by using the Company's own resources in the performance of some works, lowering prices of procured works and materials without reducing their physical volumes and making some reductions in targeted repair programmes • In November 2013, the Company established the Operating Efficiency Committee. This Committee is mandated to review, approve and oversee programmes to improvement of operating and investment efficiency • The Efficiency Committee approved several programmes to reduce operational costs and raise the Company's investment efficiency:

RISK DESCRIPTION	RISK IMPACT	RISK MITIGATION ACTIONS
sion of parameters of ong-term regulation by the FTS • The Company receives lower revenues from power transmission because the payment procedure is changed but these changes have not been taken into account when tariffs were set.	by infrastructure companies while maintaining their financial sustainability and investment attractiveness • Rules of non-discriminatory access to electric power transmission services and delivery of these services, approved by Resolution No. 861 of the Russian Government (dated 27 December 2004), stated that on 1 July 2014 there will be transition to the payment for the Company's electric power transmission services on the basis of its actual consumption • Amendments were made in 2013 to Resolution "On Pricing in Regulation of Prices (Tariffs) in the Electricity Sector" No. 1178 of the Russian Government (dated 29 December 2011), According to these amendments, as of 1 July 2014, long-term tariffs on the Company's services will be capped by tariffs that were effective on 30 June 2014, which effectively means that tariffs will be frozen at their 2013 level.	– The 2014 Programme for the Optimisation of the Power Transmission Costs – The 2014 Programme for the Optimisation of Costs of Purchases for Compensation of Losses – The Programme for the Optimisation of IT Costs • In order to mitigate risks related to changes in the procedure of calculating the volume of the Company's power transmission services, the Company sent letters to the Federal Tariff Service, the Ministry of Economic Development and the Ministry of Energy asking them to consider postponing transition to payments for actual consumption of capacity • The Company draws high-quality rationale materials to back up application for tariff setting/revision. Tariff regulation (p. 92) Cost optimisation (p. 81)
Risks of failing to meet the parameters of the investment programme approved by the Ministry of Energy Risks of failing to meet the parameters of the Company's investment programme may materialise if scheduled due dates of project implementation are not met or if projects that had not been envisaged are included in the investment programme or if the actual costs of the investment programme facilities overrun their budgeted costs. The investment programme parameters can also be breached if the Company fails to obtain the necessary cash funds.	The investment plan for the coming five years includes draft adjustments of Federal Grid Company's investment programme for 2014 and the investment programme for 2015-2019. Draft investment programmes have been sent to the Ministry of Energy. Resolution No. 159 of the Government of the Russian Federation (dated 27 February 2013) "On Making Amendments to the Rules of Approval of Investment Programmes of Electricity Sector Facilities with State Participation, and Grid Organisations" became effective. This Resolution may expose the Company to risks because facilities that are not included in the regional plans may be excluded from this Investment Programme. Given that the Investment Programme parameters are used when the Company's tariffs for power transmission are set, non-implementation of the Investment Programme will result in the downward adjustment of gross revenues in the subsequent periods.	• The Company has initiated actions to implement an action plan ("road map") to establish and develop mechanisms of public control over natural monopolies (in which the power consumers will take part), as approved by Directive No. 1689-r of the Government of the Russian Federation (dated 19 September 2013) "On the Approval of the Concept of the Establishment and Development of Mechanisms of Public Control over Natural Monopolies (With Participation of Customers)" and Action Plan ("road map"). Oversee implementation of capital investment financing plan and consistency with the work completion deadlines • The Company approved an anti-corruption policy in order to avoid exposures to fraud during procurement during the implementation of the Investment Programme; actions are taken to assess the good faith and reliability of counterparties • In order to mitigate risks of breaching the parameters of the Investment Programme, the Company's Efficiency Committee approved the Investment Efficiency Programme, which envisages a reduction of investment costs in 2014. • In order to mitigate the risk of having some facilities excluded from the Investment Programme, the Company makes sure that its officers take part in the drafting and approval of the Scheme of Territorial Planning of Energy Facilities in the Russian Federation by the Ministry of Energy • The risk of a shortage of funding sources for the Investment Programme is minimised via borrowings: in 2013, the Company signed agreements about credit facilities and successfully placed infrastructure bonds. Investment activities (p. 57) Procurement (p. 52) Debt portfolio (p. 95)

RISK DESCRIPTION	RISK IMPACT	RISK MITIGATION ACTIONS
Financial risks		
Risk of the counterparties' default on their obligations to the Company This risk is related to untimely or incomplete fulfilment by customers and/or counterparties of their obligations to pay the Federal Grid Company for its services or supply of goods and/or services.	Payments for electricity transmission services are the primary revenue source for the Federal Grid Company. According to Russian law, the Company must sign contracts for electricity transmission services with all customers that meet certain criteria. If a customer fails to make timely payments for electricity transmission services, the Company is allowed to suspend the delivery of these services to this customer. However, the Company is not allowed to terminate the contract with a non-paying customer unilaterally. If the Company faces non-payment and delayed payments (in particular if this situation continues for a long period because the Company is unable to discontinue services to non-paying customers), this may have a substantial adverse effect on the Company's financial standing and performance. Deterioration of the business environment for counterparties may also affect the Company's estimated cash flows and assessment of impairment of financial and non-financial assets, as well as its ability to service bonds.	• The Efficiency Committee approved the Programme for Improving the Receivables Management and Contractual Discipline/Claims Management in 2014 • The Company established the Receivables and Payables Management Committee which has been operating as a permanent body • Analyse a given counterparty's financial standing at the procurement stage and subsequent monitoring at the stage where contractual obligations are performed • Contract supervising managers to monitor the status of receivables • Settle overdue accounts receivable (claims management, court reclamation of debt, claims offsetting, debt restructuring via court and in the off-court manner) • Initiate amendments to existing legislation and regulations in order to strengthen financial responsibility/liability of non-payers Management's Discussion and Analysis (p. 74)
Currency risk Currency risk is related to uncertainty about fluctuations of the currency exchange rates and affects the performance of obligations with respect to procured imported equipment.	The Company receives its revenues from the electricity transmission services in roubles, and only a small share of revenues is billed in foreign currency. The Company's current loan payments are also in roubles. Therefore, its financial standing, liquidity, sources of financing and performance are not substantially exposed to fluctuations of currency rates. Economic risks related to exchange rate appreciations and increased inflation are relevant to the Company to the extent that they affect the costs of imported equipment which is procured under its Investment Programme.	• The Company controls its payments level and foreign currency obligations: the Board of Directors sets a limit on foreign currency transactions • The Company implements an Import Substitution Programme (equipment, materials and technologies) at its facilities in 2011–2014. The Programme targets the priority procurement of high-tech equipment produced in Russia. Management's Discussion and Analysis (p. 74) Import substitution policy (p. 56)
Liquidity risk Liquidity risk is related to possible losses that may be caused by the Company's inability to meet its obligations in full.	Federal Grid has investment-grade credit ratings. It services loans and credit in strict accordance with schedules.	• The Company controls its debt level and credit standing in compliance with its Regulations on Credit Policy • The Company maintains a high level of undrawn open loan facilities in the largest Russian and foreign banks • The Company builds a diversified loan portfolio in terms of instruments and maturities. Financial position (p. 88) Debt portfolio (p. 95)

RISK DESCRIPTION	RISK IMPACT	RISK MITIGATION ACTIONS
Interest rate risk This risk is largely related to changes of interest rates on loans and bank credit.	In order to finance its Investment Programme for 2013–2017, the Company made large borrowings, thus increasing its exposure to interest rate risks. Unfavourable changes in the capital markets (such as a substantial increase of interest rates) may result in larger costs of debt service. A large share of the Company's floating rate facilities includes clauses about repayment of these debt obligations before maturity if the coupon rate reaches or exceeds 10% per annum. Therefore, the risk that the floating interest rate will increase is partially hedged, and the Company perceives interest risk as low.	• The Company seeks to arrange most of its borrowing at fixed rates • The Company controls its debt levels and credit standing, including the process of planning its investments • Credit-standing criteria and targets are set in the Company's Regulations on Credit Policy, which is approved by the Board of Directors • The Company services loans and credit in strict compliance with schedules. Financial position (p. 88) Debt portfolio (p. 95)

Audit Commission

The Audit Commission is a permanent body which is elected annually by the General Meeting of Shareholders and is responsible for exercising control over the Company's financial and operational activities, its governing bodies and structural units. The main tasks of the Audit Commission are as follows:

- confirmation of the reliability of data contained in the Company's annual report, accounting balance sheet, and profit and loss statement;
- analysis of the Company's financial position, identification of ways for improving the financial position of the Company, and developing recommendations to the governing bodies;
- organisation and performance of audits (revisions) of the Company's financial and operational activities, including: review of financial, accounting, payment and settlement, and other documents related to financial and operational activities; control over the preservation and use of the fixed assets; control over expenditures in accordance with the approved business plan and budget; control over formation and use of reserve and other special-purpose funds; audit of timeliness and correctness of payment of dividends and bond interests.

Members of the Audit Commission elected by the Extraordinary General Meeting of Shareholders on 11 November 2013

Anna Drokova

Year of birth: 1985

Education: higher, State University of Management (Master's degree in Jurisprudence), Russian State University of Trade and Economics
Position: Head of the Department of organisations of Fuel and Energy Sector of the Department of Property Relations and Privatisation of the Federal Agency of State Property Management

Leonid Neganov

Year of birth: 1972

Education: higher, Moscow Engineering Physics Institute, Higher School of Economics (degree in Management)
Position: Minister of Energy of Moscow Region

Karim Samakhuzhin

Year of birth: 1988

Education: Higher School of Economics, Master's degree in Economics
Position: Deputy Head of Secretariat of the Chairman of the Board of Directors of JSC Russian Grids

Vladimir Khvorov

Year of birth: 1947

Education: higher, Moscow Power Engineering Institute
Position: leading expert of the Department of the Ministry of Economic Development of Russia

Anna Nesterova

Year of birth: 1982

Education: higher
Position: Deputy Director for Social Projects branch of Non-Profit Autonomous Organisation Agency for Strategic Initiatives

Members of the Audit Commission hold no shares in Federal Grid Company.

Remuneration of the Audit Commission members

On 30 June 2008, the General Meeting of Shareholders approved the Regulations on Remuneration and Compensation to Members of the Audit Commission of Federal Grid Company. The above-mentioned Regulations do not provide for mandatory payments to members of the Audit Commission. In 2013, no remuneration was paid to the Audit Commission members.

Auditor

As required by the laws of the Russian Federation, the General Meeting of Shareholders of Federal Grid Company appoints, on an annual basis, an auditor to perform a statutory audit of the Company's accounting statements.

On 27 June 2013, the General Meeting of Shareholders approved RSM Top-Audit LLC (renamed RSM RUS LLC on 20 August 2013) as the Company's auditor under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS). RSM RUS LLC is a full member of the leading international auditing and consulting organisation RSM International and a member of the self-regulatory organisation of auditors, Non-Profit Partnership Auditor Association Sodruzhestvo.

Auditor Selection

In order to select an independent auditor, the Company holds an open tender among organisations which have a general audit licence and are not connected with the Company by property interests, and are non-affiliated with the Company and/or with its affiliates. The auditor's professional level and the cost of their services are the main criteria for selecting an audit firm.

Based on the tender results, the Audit Committee of the Board of Directors makes a recommendation to the Board to consider a winner as a candidate to be proposed for an approval by the Annual General Meeting of Shareholders.

Auditor Remuneration

The Board of Directors has set the maximum amount payable to the external auditor for auditing the Company's financial statements under RAS and IFRS for 2013 at RUB25 million including VAT.

During the reporting period, the external auditor did not provide any non-audit services to the Company.

Managing Subsidiaries and Associates

As of 31 December 2013, Federal Grid had 21 subsidiaries and associates mostly operating in the energy industry, including supporting electric grid facilities.

The following internal documents have been adopted to regulate the Company's relationship with its subsidiaries and associates, as well as other entities in which Federal Grid has an ownership interest:

- Procedure for Interaction with Subsidiaries and Associates of Federal Grid Company
- Regulations on Managing Subsidiaries and Associates and other Entities in which Federal Grid Company has an ownership interest
- Standard for Structural Units of Federal Grid Company on Building Positions and Instructing Representatives of the Company in General Meetings of Shareholders and Boards of Directors of Subsidiaries and Associates
- Procedure for KPI calculation and target achievement evaluation in Subsidiaries and Associates of Federal Grid Company
- Federal Grid Company's Order on Approval of Standards and Model Regulations on Managing Subsidiaries and Associates, and other regulatory and administrative documents of Federal Grid Company

The Procedure for Interaction with Subsidiaries and Associates of Federal Grid Company, approved by the Board of Directors, serves as a basic document setting corporate procedures through which the Company manages its subsidiaries and associates.

The main forms of interaction between the Company and its subsidiaries and associates are as follows:

- Consideration by the Board of Directors of issues regarding positions of the Company representatives on draft resolutions on agenda items of General Meetings of Shareholders and meetings of Boards of Directors of subsidiaries and associates
- Participation in drafting proposals and decision-making by governing bodies of subsidiaries and associates through the Company representatives in General Meetings of Shareholders and meetings of Boards of Directors of subsidiaries and associates
- Consideration by the Management Board of issues within its competence that relate to interaction between the Company and its subsidiaries and associates.

For further details on Federal Grid's participation in subsidiaries, associates and other organisations see Appendix to the Report **on the memory stick attached**.

Anti-Corruption Activities

	ACTUAL 2012	ACTUAL 2013
Economic effect of anti-corruption measures in procurement, RUB mln	**116.9**	**450.0**

We consider corruption to be one of the systemic threats to the stability and national security, and fighting corruption is among our priority tasks.

Main Principles and Tasks of the Anti-Corruption Policy

In 2012, the Board of Directors approved Federal Grid's Anti-Corruption Policy, which aims to design and implement measures for the prevention of corruption, eliminate its root causes and conditions, and strengthen anti-corruption attitudes among employees.

The implementation of our Anti-Corruption Policy is based on principles which are in line with the best international anti-corruption practices, including:

- zero tolerance towards corruption in all its forms and manifestations
- minimisation of the risk of business relations with counterparties which may be involved in corrupt practices
- the mission of top management – members of the governing bodies and senior managers - should form an ethical standard for the non-acceptance of any forms of corruption at all levels, making their own behaviour an example to others
- prohibition of granting privileges or immunities from liability for corruption to certain groups of employees
- prohibition of any impediments to access to information about corrupt practices and anti-corruption measures
- continuous monitoring of, and control over, Anti-Corruption Policy implementation.

The Anti-Corruption Policy's tasks are as follows:

- minimising the risk of involvement in corrupt practices on the part of members of the Board of Directors, the Chairman and members of the Management Board and the Company's employees, irrespective of their position
- preventing corrupt practices
- ensuring liability and compensation for harm caused by corruption
- monitoring the effectiveness of anti-corruption measures
- establishing legal mechanism preventing bribery of those responsible for anti-corruption measures in the Company
- ensuring awareness and compliance with anti-corruption legislation and the requirements of the Anti-Corruption Policy by the Company employees.

Implementation of the Company's Anti-Corruption Policy

A special-purpose structural unit – the Department of Operational Control and Compliance – is responsible for the organisational support that underpins the implementation of the Anti-Corruption Policy.

In 2013, there were three main areas surrounding the implementation of the Anti-Corruption Policy.

The following anti-corruption measures were implemented in 2013:

- The procedure for the declaration of conflicts of interests by the Company's senior managers.
- Scheduled and unscheduled audits aimed at detecting corrupt practices in the activities of the Company's subsidiaries and associates.
- Anti-corruption review of 2011 organisational and administrative documents in the Company's Executive Office and branches.
- Anti-corruption review of transaction documents under 11,644 transactions, including procurement procedures, followed by specific actions aimed at preventing and/or compensating losses and missed profit.

The economic effect of anti-corruption measures in 2013 significantly exceeded figures reported in 2012 and amounted to more than RUB450 million.

Enhancement of functions performed within anti-corruption activities and compliance procedures	For the purpose of preventing possible corrupt practices, we started to monitor the financial condition of our existing and potential counterparties. We also arranged monitoring of procurement procedures within our investing activities.
Improvement of regulatory framework	In 2013, we continued to develop our internal anti-corruption regulatory framework and adopted a number of organisational and administrative documents on certain anti-corruption procedures, including Regulations on handling conflict of interests and Procedures for handling information on the chain of ownership (including beneficiaries) of procurement participants (potential counterparties) and counterparties of Federal Grid.
Automation of activities	In 2013, we performed testing and commissioning of the computer-aided system Recording of the Company Counterparties' Beneficiaries, which has been created to collect and analyse information on counterparties' owners.

Share capital

Share Capital Structure*

As of 31 December 2013, the charter capital of Federal Grid Company amounted to RUB633,570,507,998 and was divided into 1,267,141,015,996 ordinary registered non-documentary shares with a nominal value of RUB0.50 each.

In accordance with the Company's Articles of Association, the number of authorised shares was 79,664,807,835 ordinary registered shares with a nominal value of RUB0.50 each and a total nominal value of RUB39,832,403,917.5. Authorised ordinary shares offer the same rights as outstanding ordinary shares.

In November 2013, the Board of Directors adopted a resolution to increase Federal Grid Company's share capital by placing additional ordinary registered shares with a total value of RUB4,715,699,886.5 through an open subscription. On 21 November 2013, the additional issue was registered by the FFMS of Russia under the state registration number of 1-01-65018-D. The Company provided its shareholders with a pre-emptive right to acquire shares of additional issue.

On 20 February 2014, the additional ordinary share issue was completed with a price of RUB0.50 per share. During the additional issue, 7,524,307,067 shares (79.78% of the total number of securities of the additional issue to be placed) were placed. As a result of the placement, the Company received funds in the amount of RUB3,762 billion.

The Russian Federation, which acquired shares to the amount of RUB3,756 billion, was the main participant in the additional issue. The remainder of the outstanding shares, in the amount of RUB6 million, was acquired by minority shareholders. The Company has allocated funds received from the additional issue for constructing and commissioning electricity transmission lines to improve the reliability of power supply in the Republic of Sakha and Buryatia, as well as facilities for the Winter Olympics in Sochi.

Information on the Company's share capital history can be found on our corporate website, **www.fsk-ees.ru**, in **Investors / Share Information / Share Capital History** section.

For further details on each of the Company's securities issue, see Appendix to the Report **on the memory stick attached**.

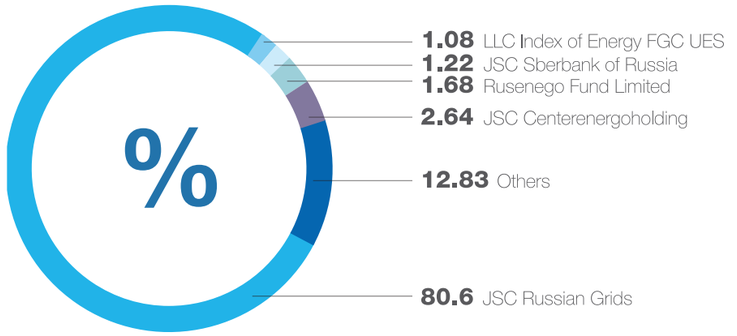
The Company has more than 400,000 shareholders. The JSC Russian Grids, which owns 80.6% of the share capital, is the Company's majority shareholder. The Russian Federation, represented by the Federal Agency for State Property Management (Rosimushchestvo), owns 0.00000000055% of the share capital.

On 17 June 2013, Russian Grids and Rosimushchestvo signed a shareholders' agreement regarding the holding of shares, present or future, and voting in Federal Grid Company.

To improve interactions with shareholders, Federal Grid Company analysed its shareholder register and identified the key groups of holders of ordinary shares and depository receipts. As of the end of 2013, the Company's free float was on average 19.4%. The main minority shareholders of the Company are institutional investors and holding structures, with retail investors accounting for 2.82%.

** Data as of 31 December 2013 (without taking into account data for shares of additional issue, placement of which was completed in 2014).*

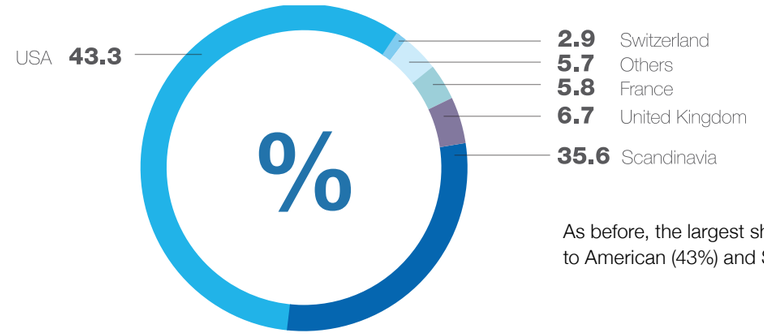
Share Capital Structure of Federal Grid*



** Information is disclosed with the consent of the respective shareholders.*

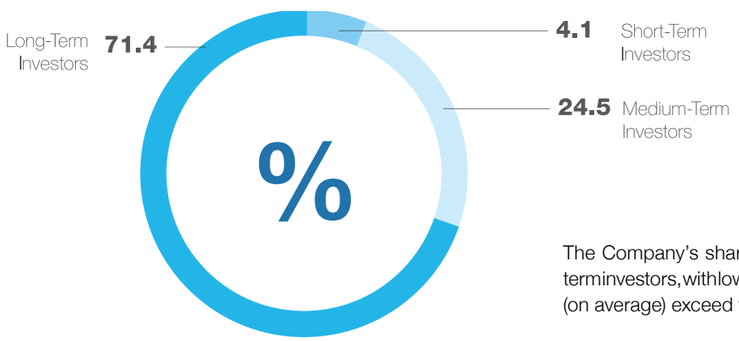
15% of the Company's free float includes foreign institutional investors, such as major funds focused primarily on Russia, whose assets under management exceed USD1 billion: Vanguard Emerging Markets Stock Index Fund (USD62 billion), East Capital Russian Fund (USD1.2 billion), Market Vectors ETF Trust Russia ETF (USD1 billion), and BlackRock funds.

Geographical Breakdown of Foreign Investors



As before, the largest share of foreign investments belongs to American (43%) and Scandinavian (36%) shareholders.

Investor Breakdown by Investment Horizons



The Company's shareholders are predominantly long-term investors, with low portfolio turnover, and holdings that (on average) exceed two years.

Stock Market

Shares of Federal Grid Company are traded on the "B" quotation list of the MICEX Russian Stock Exchange, which is a member of JSC Moscow Exchange Group. The fundamental appeal of the Company's stock is underpinned by its inclusion in key Russian and foreign indices: MSCI Russia, MSCI Emerging Markets, MICEX Index, RTS Index, Sector Index (Micex PWR) and Vienna Stock Exchange Indices (Russian Traded Index, the RTX Energy).

	2013 TARGET	2014 TARGET
Return on initial invested capital, %	7.8	10

2013 Share Performance

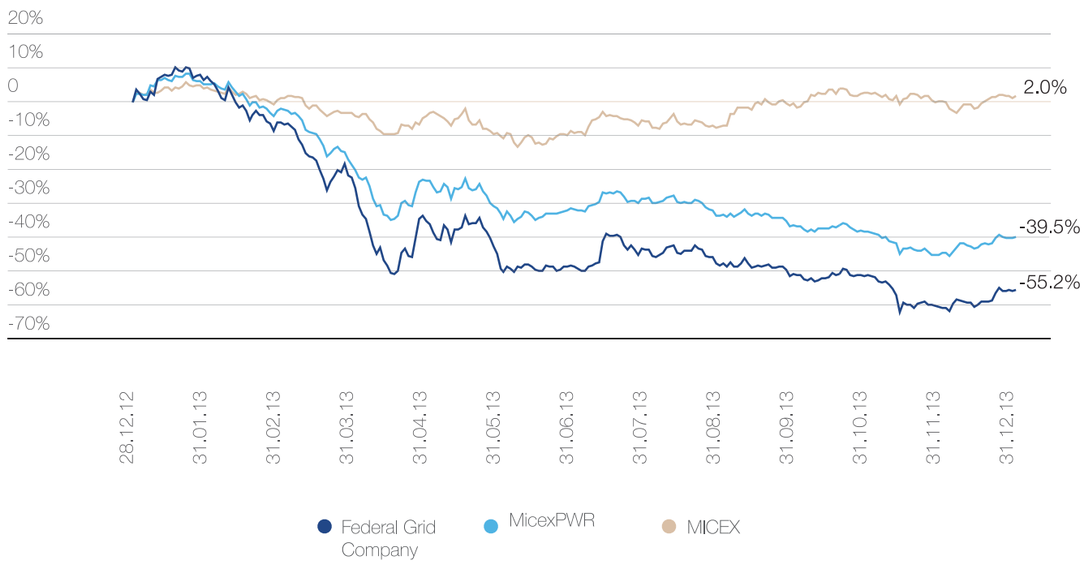
Global equity markets closed mixed in 2013: the index of developed countries MSCI World has increased by 24%, while the index of emerging MSCI EM declined by 5%. The difference in absolute values of these indicators has more than doubled, reaching its maximum since 2001.

The Russian market grew – the MICEX index added 2%, which is far below the growth rate of the MSCI World but yet looks better than MSCI EM behaviour.

Federal Grid's Share Information

Share category	Ordinary registered non-documentary
Nominal value	RUB0.50
MICEX Ticker	FEES
LSE Ticker	FEES
ISIN	RU000A0JPNN9
Bloomberg Code	FEES RX

Electricity Sector, Federal Grid Company's shares



Electricity industry equities were major underperformers – the Micex PWR sector index went down by 39.5%. The indicator declined quicker than the market, largely because of the tighter tariff policy followed by a decision about zero indexation of tariffs in 2014.

In 2013, Federal Grid Company shares lost 55.2%, strongly underperforming the Micex PWR sector index.

In February and March, shares were under pressure of speculations regarding the parameters of a stock valuation of Federal Grid Company and Russian Grids for Russian Grids' additional issue within the electric grid sector reorganisation.

Since April 2014, the Russian Government's proposals to tighten the tariff policy for natural monopolies (these proposals were finalised in a decision to freeze tariffs in 2014) have had an additional adverse material impact on Federal Grid Company equities.

Another adverse effect on Federal Grid Company's equities was the exclusion of Russian Grids' shares from MSCI Russia because equities related to the conversion ratios were under pressure following the aggressive selling of Russian Grids shares.

At year-end, Federal Grid Company shares recovered somewhat, supported – among other factors – by a statement from Russian Grids' CEO that emphasised the readiness of the holding company and its subsidiaries to pay 25% of IFRS net profit as dividend.

Key Parameters of Federal Grid Company Share Trading

		2011	2012	2013*
Volume	units	476,111,513,800	619,919,120,000	989,348,930,000
	RUB	159,370,754,044	147,513,331,183	116,812,022,883
Number of deals	units	2,043,606	2,698,318	3,235,854
Low	RUB	0.21111	0.1513	0.07508
High	RUB	0.481	0.3768	0.226
Period end	RUB	0.2811	0.20104	0.09016
Number of shares	mln, shares	1,255,948	1,260,387	1,267,141
Capitalisation at year end	RUB, mln	351,163.1	253,904.89	114,600.23

** T+2 trade results are calculated from 2 September – date of Moscow Exchange's switch to this trading mode as a basic one. Source: Moscow Exchange website, moex.com*

For further details of our shares' trading, please refer to the section **Investors / Share Information / Interactive Stock Chart** of our website, **www.fsk-ees.ru**

Global Depository Receipt Programme

On 30 June 2008, Federal Grid Company launched a global depository receipt (GDR) programme, which was not listed under Regulation S and Rule 144A. From 1 June 2013, the Programme's depository bank is the Bank of New York Mellon (BNY Mellon).

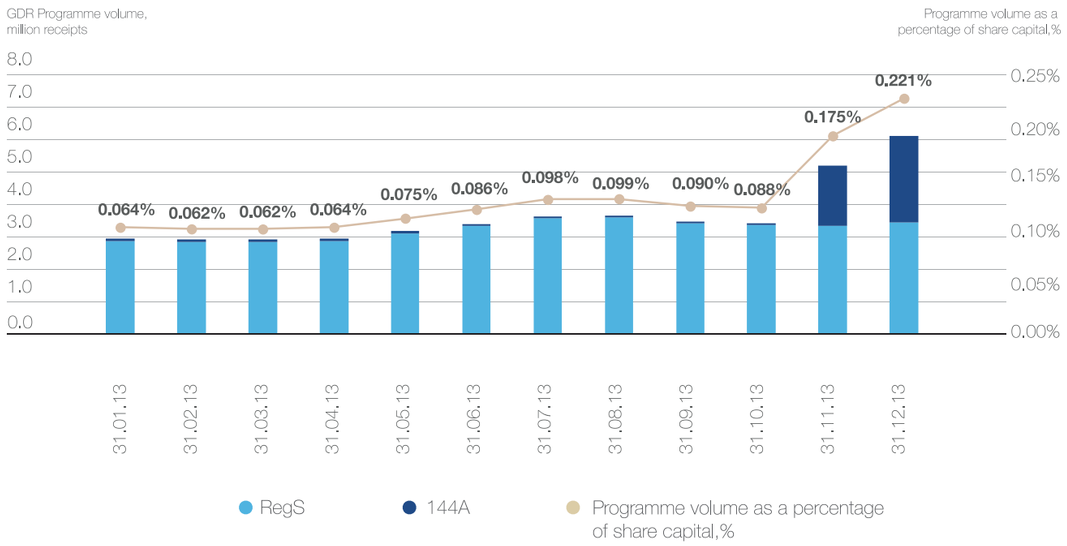
In 2011, the Company completed a technical listing of depository receipts on the Main Market of the London Stock Exchange (LSE), which began trading Federal Grid Company GDRs on 28 March.

As of 31 December 2013, the GDR programme had 5.6 million receipts, representing 0.221% of the Company's share capital. The maximum number of GDRs that the Company is allowed to issue is 287,269,492,431.

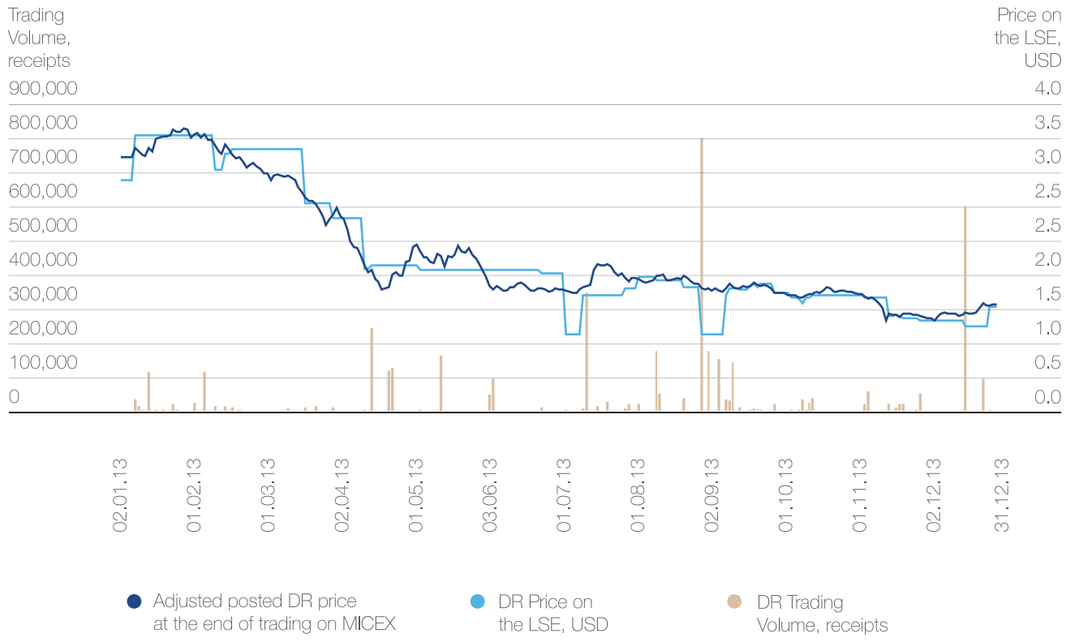
GDR Programme Highlights

	Regulation S	Rule 144A
Ratio	1 GDR: 500 shares	1 GDR: 500 shares
International Code	ISIN: US3133542015 CommonCode: 036273577	ISIN: US3133541025 CommonCode: 0362733372
Price per GDR at year end	USD 1.35	—
Number of GDRs as of 31 December 2013	2,221,960	3,384,725

GDR Programme as a Percentage of the Company's Share Capital



GDR Price and Trading Volume, LSE



For further details on trading in the Company's depository receipts, please refer to our website **www.fsk-ees.ru,** section **Investors / Share Information / Interactive Stock Chart**.

Updates about the GDR programme are also available on the LSE website at **www.londonstockexchange.com** under Federal Grid Company's ticker: EEES.

Dividend Policy

Our dividend policy strikes a balance between shareholders' interests and the Company's business needs, including enhancing its investment attractiveness and capitalisation.

The Company's Board of Directors approved the Regulations on Dividend Policy of Federal Grid Company setting the dividend policy principles, mechanisms for determining the size of dividends, procedure, period and form of dividend payment. In accordance with the Regulations, the minimum payout rate is set at 10% of net profit under RAS.

The full text of the Regulations on Dividend Policy is available at our website **www.fsk-ees.ru**, **Section Shareholders and Investors**.

The General Meeting of Shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board of Directors. The Board makes its recommendations based on financial results, seeking to balance the interests of the Company and its shareholders.

Payment of dividends for 2006—2012

	2006	2007	2008	2009	2010	2011	2012
Dividend per share, kop.	0.16	0.08	—	—	0.21	—	—
Total accrued, RUB mln	587.9	380.0	—	—	2,577.7	—	—
Total paid, RUB mln	587.9	380.0	—	—	2,569.3*	—	—
Paid to accrued dividend ratio, %	100	100	—	—	99.67	—	—

** Dividends were paid in full to all shareholders registered in the Company's shareholder register excluding the amount of RUB 8,383,793.57 to those shareholders who had not timely informed about changes in their personal data or who had submitted incorrect payment details.*

No dividends were declared for 2008, 2009, 2011 and 2012.

2013 Dividends

In accordance with Clause 2 of Article 42 of the Federal Law "On Joint Stock Companies" and Clause 7.5 of Article 7 of Federal Grid Company's Articles of Association, dividends shall be paid out from the Company's net income determined under the Company's accounting statements.

According to Federal Grid Company's 2013 accounting statements, there was a loss of RUB25,898 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 doubtful debt provisions.

In 2014, the Company's Annual General Meeting of Shareholders will make a resolution on the 2013 dividend payment. Shareholders have proposed to resolve not to pay 2013 dividends on the Company's ordinary shares.

Information Policy

Our Information Policy is based on the following fundamental principles of information disclosure:

- regularity and promptness
- availability of information
- completeness and reliability of disclosed information
- maintenance of a reasonable balance between the openness of the Company and protection of its commercial interests.

The Regulations on Information Policy of Federal Grid Company approved by the Company's Board provide the main principles of information disclosure and establish the list of information subject to disclosure as well as the rules for information disclosure.

We believe that openness is one of the key elements for improving the efficiency and sustainability of the Company's activities, and for strengthening relations with its stakeholders.

In addition to strict compliance with the requirements on mandatory disclosures, we maintain an ongoing dialogue with our stakeholders, assess their informational needs and strive to meet them promptly.

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

- tariffs for services with regard to which State regulation is applied
- key indicators of financial and operational activities
- the main consumer specifications of regulated services
- the technical accessibility of regulated services
- registration and implementation of applications for technological connections to the Company's infrastructure
- terms and conditions of regulated services
- technological, technical and other activities related to technological connections to the Company's infrastructure
- investment programmes, their projects and implementation
- modes of purchase, cost and on the amount of goods required for rendering regulated services.

Information disclosure channels

Federal Grid Company's main disclosure channel is our corporate website www.fsk-ees.ru, which is updated regularly and provides information on material facts and events, governance structure and the Company's business results. The website presents the Articles of Association and other internal documents, information of affiliated entities, securities, dividend payments, quarterly and annual reports and sustainability reports, annual and interim financial statements under RAS and IFRS, materials for General Meetings of Shareholders as well as resolutions adopted by the GMS and the Board of Directors.

In addition to publishing significant information on its website, the Company discloses information on the website of Interfax agency, on the home page of the London Stock Exchange and in the print edition of Rossiyskaya Gazeta, as well as disseminating price-sensitive information through the RNS portal.

We consider an annual report one of the most important tools for the Company to communicate with its shareholders, investors and other stakeholders. When preparing our annual reports we not only comply with legislative requirements but also actively strive to provide our stakeholders with additional information on various aspects of the Company's activities.

Our efforts in this area were recognised: in November 2013, the 2012 annual report of Federal Grid Company became the winner of the Best Annual Report (non-financial sector) at the 15th Annual Report Competition held by the Expert Rating Agency. The interactive version of the Company's annual report won third place

at the 16th annual competition run by Rynok Tsenykh Bumag magazine and the social network investor.ru in partnership with Bank of Russia Financial Markets Service.

Information policy in the area of long-term development

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

The Company's policy of information openness in the field of UNEG long-term development is based on properly informing current and potential customers about the existing procedures of long-term development and the possibilities for clients to participate in these procedures.

The effectiveness of interaction and the fullness of information exchange with electric power entities are ensured by virtue of the principles of transparency at all stages of decision-making and the regular provision of all interested parties with up-to-date and reliable data on actions expected in the area of UNEG development

Investor Relations

Investor Calendar *

Date	Event	Information
March 11th	2013 Annual Results (RAS)	IR Release Financial Statements
April 4th	FY2013 Annual Financial Report (FSA), FY 2013 Financial Results (IFRS)	IR Release Financial Statements Presentation
May	Q1 2014 Financial Results (RAS)	IR Release Financial Statements
Before June 30th	Annual General Shareholders Meeting	IR Release Financial Statements Annual General Meeting Presentation
July	H1 2014 Financial Results (RAS)	IR Release Financial Statements
August	H1 2014 Financial Results (IFRS)	IR Release Financial Statements Presentation
October	Q3 2014 Financial Results (RAS)	IR Release Financial Statements

** Dates may be subject to change.*

Federal Grid Company is a public company, one of the top blue chips of the Russian energy sector. We strive to maintain strong relationships with the investment community, paying a great deal of attention to communicating with analysts and investors, at investment forums, conferences and in personal meetings.

The main task of our investor relations (IR) is to provide our shareholders, current and potential investors, and analysts with accurate and up-to-date information on the Company's affairs and its prospects.

We also consider it important to get feedback from this community, which helps to set a development strategy in line with the financial market participants' perceptions.

Federal Grid representatives hold regular meetings with minority shareholders and investors with a view to enhance their awareness of the Company's activities, to identify investment needs and to define optimal ways for investing in Federal Grid's securities.

In March 2013, within the policy of improving investment attractiveness among retail stock market participants, Federal Grid held a meeting in St Petersburg with minority shareholders – individuals. The meeting was organised in collaboration with staff members of the Company's Corporate Governance Department with the assistance of the ALOR Stock Trading Institute. The participants were given the Company's performance results and discussed prospects for investing in its securities.

In June 2013, a meeting with minority shareholders was held during preparations for a General Meeting of Shareholders.

In November 2013, the Chairman of the Management Board of Federal Grid Company, Andrey Murov, held a meeting with investors. At the meeting, Mr Murov told investors about the Company's 2014–2018 strategy for development of the national backbone grid complex and about areas of potential growth under the regulatory tariff freeze.

In June 2013, Federal Grid's representatives within the delegation of Russian Grids' companies took an active part in the 17th St Petersburg International Economic Forum. The First Deputy Chairman of the Company's Management Board, Andrey Kazachenkov, attended a working session of Russian Grids' delegation with the EBRD President, Suma Chakrabarti. The participants discussed issues regarding cooperation within agreements made earlier on financing the Company's investment programme and the potential for cooperation with the long-term financing of interregional distribution grid companies.

The active work of our IR staff was highly appreciated by the investment community. Thus, in July 2013, Federal Grid Company became one of three companies to be shortlisted for the awards "Best Investor Relations by a CEO, mid cap" and "Best Investor Relations by a CFO, mid cap" by IR magazine (Russia & CIS).

Further information on our IR events can be found in the section Shareholders and **Investors / IR** releases of our website, **www.fsk-ees.ru**

The list of investment analysts monitoring Federal Grid Company's performance is available in section **Shareholders and Investors / Analysts** of our website, **www.fsk-ees.ru**

IR Team

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Additional Information

Disclaimer

This annual report (hereinafter – the Annual Report) was prepared based on information available to Federal Grid Company and its subsidiaries and associates at the time this Report was compiled.

The Annual Report includes, among other things, statements regarding the Company's future operations based on management's current forecasts and assessments. There are a number of objective factors that could cause actual results to differ materially from the above forecasts and assessments.

The Annual Report contains certain forward-looking statements regarding business operations, economic and financial indicators of the Company, its business plans, projects and expectations. The Annual Report may also contain estimates of price changes, production and consumption volumes, costs, expenses, development prospects and other similar factors, as well as forecasts on industry and market development, beginning and end dates of certain projects of the Company.

Such forward-looking statements can be identified by the use of the terminology such as "intend", "strive", "project", "expect", "estimate", "plan", "anticipate", "assume", "may", "could be", "will be", "continue" or similar words and expressions or variation thereon.

By their nature, forward-looking statements involve risks and uncertainties, both general and specific, that may cause the relevant assumptions, forecasts, projections and other forward-looking statements do not materialise. In view of the above risks, uncertainties and assumptions, the Company cautions that its actual results may differ materially from those expressed or implied in such forward-looking statements.

These statements are neither promises nor guarantees, and the Company shall not be liable for any losses incurred by legal entities and individuals who relied on forward-looking statements. Such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely scenario.

Except as required by applicable legislation, the Company does not undertake any obligation to release publicly any updates and revisions of such forward-looking statements whether as a result of new information or future events.

Contacts

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For calls from neighbouring countries and beyond:

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IR Service:

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Email: baklanov-vv@fsk-ees.ru

Egor Toropov
Tel: +7 (495) 710 9333 ext. 2275
Email: toropov-ev@fsk-ees.ru

Company Auditor (RAS):

Full name: RSM RUS Limited Liability Company
Short name: RSM RUS LLC
Address: 4 Pudovkina str., Moscow 19285, Russia
INN: 7722020834
OGRN: 1027700257540
Phone: +7 495 363 2848
Fax: +7 495 981 4121
E**-mail:** mail@top-audit.ru

SRO Membership:

Full name: self-regulatory organisation Non-for-Profit Partnership "Audit Association "Sodruzhestvo"
A**ddress:** 21/4 Michurinsky prospect, Moscow 119192, Russia

According to the terms of the dealer agreement in respect to the bond issue programme entered into by 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 IFRS consolidated financial statements. According to this requirement, KPMG CJSC was appointed as Auditor for Federal Grid Company's IFRS consolidated financial statements for 2013 (as adopted by the EU).

Company Auditor (IFRS)

Full name: Closed Joint-Stock Company KPMG
Short name: CJSC KPMG

Legal address: office 3035, 18/1 Olympic prospect, Moscow 119192, Russia
Postal Address: Tower Complex Block, 10 Presnenskaya Naberezhnaya, Moscow 123317, Russia
INN: 7702019950
OGRN: 1027700125628
Phone: +7 495 937 4477
Fax: +7 495 937 4499
E-mail: moscow@kpmg.ru

SRO Membership:

Full name: Non-for-Profit Partnership "Audit Chamber of Russia"
Address: building 3, 3/9, 3rd Syromyatnichesky pereulok, Moscow 105120, Russia

Company Registrar

Full name: Closed Joint-Stock Company "Registrar Society STATUS"
Short name: CJSC STATUS
Address: building 1, 32 Novorogozhskaya str., Moscow 109544, Russia
Phone: +7 495 974 8350
Fax: +7 495 678 7110
E-mail: info@rostatus.ru
License number: 10-000-1-00304
Issue date: 12.03.2004
Validity period: non-expiry
Issuing authority: FFMS of Russia

Depositary

Full name: Non-Banking Credit Organisation Closed Joint-Stock Company National Settlement Depository
Short name: NSD

Address: building 8, 1/13 Sredny Kyslovsky pereulok, Moscow
License number: 177-12042-000100
Issue date: 19.02.2009
Validity period: non-expiry
Issuing authority: FFMS of Russia

Glossary

Abbreviations

APCS	Automated Process Control System
ACPP	Annual Comprehensive Procurement Programme
ALCS	Automated Lighting Control System
BRELL	Belarus, Russia, Estonia, Latvia and Lithuania
CDC	Contract for Delivery of Capacity
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHP	Combined Heat and Power
CIS	The Commonwealth of Independent States
CIS EPC	CIS Electric Power Council
COSO	The Committee of Sponsoring Organisations of the Treadway Commission
COTC	Commission for Operating and Engineering Coordination of Collective Operation of CIS and Baltics Energy Systems
CTC	Central Tender Commission
DECT	Digital European Cordless Telecommunications
DHS	Dedicated Heating Station
DSS	Digital Substation
EBITDA	Earnings before Interest, Taxation, Depreciation & Amortisation)
EBRD	European Bank for Reconstruction and Development
EMS	Environmental Management System
ESS	Energy Storage System
ESUPCN	Energy System's Unified Process Communications Network
EurAsEC	Integration Committee of Eurasian Economic Community

FFMS	Federal Financial Market Service
FOCN	Fibre-Optic Communications Network
GDR	Global Depository Receipt
GIS	Gas-Insulated Switchgear
GLONASS	Global Navigation Satellite System
GMS	General Meeting of Shareholders
GRI	Global Reporting Initiative
GRES	State District Power Plant
HPP	Hydro Power Plant
HIFs	Hazardous Industrial Facilities
HPB	high power batteries
HR	Human Recourses
HSCSR	High-speed controlled shunt reactor
HTS	High temperature superconducting
HVL	High Voltage Line
IES	Illuminating Engineering Society
ISIN	International Securities Identification Number
IFRS	International Financial Reporting Standards
ISGAN	International Smart Grid Action Network
IDR	Issuer Default Ratings
IDGC	Inter-regional Distribution Grid Company
ICS	Internal Control System
IPS	Integrated Power System
JSC	Joint Stock Company
KPI	Key Performance Indicator
MES	Backbone Electric Grid

MPEI	Moscow Power Engineering Institute
NGPP	Non-Governmental Pension Program
NPP	Nuclear Power Plant
OECD	Organisation for Economic Cooperation and Development
OHTL	Overhead Transmission Line
OSIR	Outage Schedule Implementation Rate
RAS	Russian Accounting Standards
PABX	Private Automated Branch Exchange
PMES	Backbone Electric Grid Enterprise
PTC	Permanent Tender Commission
PTL	Power Transmission Line
R&D	Research and Development
RAB	Regulatory Asset Base
RPAS	Relay Protection and Automation System
RPD	Rate of Process Disturbances
RUIE	Russian Union of Industrialists and Entrepreneurs
SPS AAG	Smart Power System with an Active Adaptive Grid
SS	Substation
TPP	Thermal Power Plant
UES	Unified Energy System
UNEG	Unified National Electric Grid
VoIP	Voice over IP
WECM	Wholesale Electricity and Capacity Market
VRP ACS	Voltage and Reactive Power Automatic Control System
VSAT	Very Small Aperture Terminal
WWF	World Wildlife Fund

Units of measure

bn	billion	kWh	Kilowatt-hour
Gcal	gigacalorie	l	litre
GW	gigawatt	mln	million
km	kilometer	MVA	megavolt-ampere
kv	kilovolt	MW	megawatt
kW	kilowatt	p.p.	Percentage point

Appendices, on the memory stick attached

- audit Commission's Report
- Information on Compliance with the FCSM Code of Corporate Conduct
- Information on Major Transactions and on Transactions made by Federal Grid Company in 2013, which are recognised under the RF laws as related party transactions, and are subject to approval by the Company's authorised governing bodies
- Information on the Actual Performance of Assignments of the President and the Government of the Russian Federation
- Information about the Structure of the Property Portfolio of Federal Grid Company
- Information about Land Plots of Federal Grid Company
- RAS Annual Financial Statements
- Additional Information by Section of the Annual Report

Information materials, on the memory stick attached

- management Report 2013
- IFRS Consolidated Financial Statements

NOTES