CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT

2013

ROSSETI

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT

CONTENTS

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Director General
Oleg Budargin

Statement from Management

Dear Readers:

The year 2013 was significant for the Company's sustained development. In the reporting period, we completed the reorganization of the electric grid sector and set new medium-term goals and objectives. An important event in this area was the approval of the five-year Strategy for Development of the Electric Grid Sector of the Russian Federation. A top priority of the Strategy is to decrease cross-subsidies and reduce electricity losses. If we are successful in reaching our goals in the modernization and development of electric grids, this will make a substantial contribution to the economy of the regions in which we operate and will ensure the country's energy security.

We regard social responsibility as being attentive to the needs of our customers and partners because mutual confidence is the Company's key asset that we strive to augment. Our invariable priorities in this area are to make tariff regulation more affordable and transparent and secure a reliable and interrupted electricity supply for the customer. The Company's efforts contributed greatly to Russia's better position in the Doing Business ranking. Russia climbed as high as 71 positions in the "Getting Electricity" ranking in 2013. This achievement is due to the Company's success in shortening the length of network connection and considerably cutting connection prices.

Improved service quality makes it necessary to streamline the management of grid facilities. We continued systematic work in 2013 on enhancing the electric grid sector's efficiency and making it more attractive to investors. A significant event in the area of corporate governance was the establishment of the Department for Corporate and Anti-Corruption Compliance Procedures responsible for preparing uniform anti-corruption standards, providing method-

ological support, and supervising the implementation of the Anti-Corruption Policy approved in 2013.

The Company's strategic goals and objectives are closely connected with the priorities of social development. As a socially responsible company, Russian Grids participates in projects of nationwide importance that contribute substantially to the country's socioeconomic development. This is primarily related to preparations for 2014 Winter Olympics and the 2014 Winter Paralympics in Sochi. In the period under review, Russian Grids not only built new facilities supplying power to the sports infrastructure but also totally rehabilitated Sochi electric grid facilities. These are 68 various power facilities, including substations rated 220 and 110 kV. The rehabilitation of the city's distribution network involved constructing more than 900 kilometers of new lines and installing over 500 new transformer and distribution stations. It is no exaggeration to say that the overall rehabilitation of Sochi electric grid facilities made it possible to create one of Russia's most advanced and environmentally friendly energy systems.

Procedures responsible for preparing uniform anti-corruption standards, providing methodological support, and supervising the implementation of the Anti-Corruption Policy approved in 2013.

As one of the largest companies in the country, Russian Grids contributes to socioeconomic development in the regions of its operations by organizing transparent procurement procedures. In the 2013 National Procurement Transparency Rating of Contracting Public Entities, the Company received the highest award, "Guaranteed Transparency". Additionally, in the professional contest "Leader in Competitive Procurement", Russian Grids was recognized as "Company of the Year in Competitive Procurement" and was awarded in the category "Procurement Transparency".

The invariable principles of the Company's operations are the operating reliability and safety of electric grids, including in terms of their environmental impact. Overall, air emissions in 2013 decreased by 10% compared with the previous reporting period, from 1,403 to 1,256 tonnes, which results from air protection measures carried out by the Company's subsidiaries and dependent companies.

The publication of the new social report proves that we are committed to the principles of sustainable development and strive to conform to high social and environmental responsibility standards. We advocate transparency and constructive dialog with customers, employees, partners, and all those who care about the future of the Russian electric grid sector.

Sincerely,
Director General and,
Chairman of the Management Board
Rosseti

Oleg Budargin

01 COMPANY PROFILE

1.1. Core Activities

The Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013, provides for the formation of a single electric grid management company based on Russian Grids to coordinate the activities of Russian grid organizations in the areas of tariffs, technical policy, investment planning, transparent financial and economic operations, and anti-corruption policy.

In order to achieve the goals, it is planned that Russian Grids will perform the following principal functions:

- strategic functions (planning, methodology, etc.);
- coordinating functions (coordination of investment, technical, financial, and procurement policies; coordination of capital investment programs; etc.);
- controlling functions (financial reporting, benchmarking, audit, setting of key performance indicators, monitoring of KPI attainment, etc.);
- accomplishment of institutional goals faced by the entire industry;
- participation in the consolidation of territorial grid organizations with the aim of ensuring the necessary reliability and quality of the power supply for customers.

1.2. Role and Business Position of the Company

Russian Grids is one of the most significant infrastructural companies in Russia and one of the world's largest electric grid company in terms of the number of customers and the length of power lines.

Russian Grids holds Russia's main electric grid assets (70% of distribution and 90% of transmission lines), which determines the special role of the Company. As the principal shareholder of subsidiaries and dependent companies (SDCs), whose operating activities are electricity transmission and distribution, Russian Grids is responsible not only for the current situation with the reliability and quality of electricity transmission and distribution services but also for the main areas of the electric power industry's development in the long run.

Russian Grids' SDCs operate in natural monopoly conditions and account for over 70% of all electricity transmission and distribution, generated in the Russian Federation.

For most electricity consumers in Russia, Russian Grids' SDCs provide services throughout the downstream process: from generation and transmission companies to distribution to customers' power-receiving equipment.

1.3. Awards Received in the Reporting Period

By introducing innovations and working on scientific advances, 237,000 staff members of the Russian Grids Group make a significant contribution to the progressive socioeconomic development of the country. Accomplishments of our personnel are highly acclaimed by the country's leadership: orders and medals were awarded to 49 electric grid companies' employees, 826 employees received official awards, and corporate awards were granted to 1,602 employees in 2013.

For occupational achievements and many years of honorable work, Decrees of the President of the Russian Federation granted the Order Medal for Merit to the Fatherland (2nd Class) in 2013 to seven employees.

For achievements in upbringing and the strengthening of family traditions, Decree of the President of the Russian Federation No. 869 of December 2, 2013, granted the Order of Parental Glory to Vladimir Shapoval, a worker for integrated maintenance and repair of administrative buildings, Krasnaya Yaruga Electric Grid District, Belgorodenergo, a branch of IDGC of Centre.

For achievements in the power industry and many years of honorable work, the Honored Power Engineer of the Russian Federation title was awarded to 41 employees.

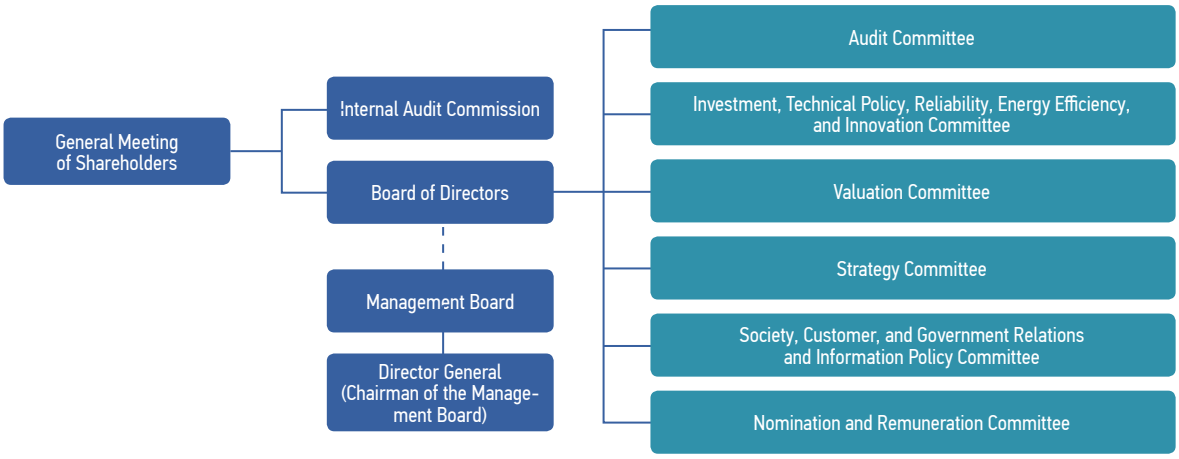
1.4. Corporate Administration System

Goals and Objectives of Corporate Administration

Russian Grids pursues its policy on shareholder relations in accordance with the applicable laws of the Russian Federation, the Articles of Association, other internal documents of the Company, its obligations related to the trading of securities in global stock markets, and the world's best practices. The principal goals and objectives of the corporate policy are as follows:

- ensure the unconditional, timely, and absolute exercise of the legitimate rights and interests of all shareholders of Russian Grids;
- develop efficient interaction between Russian Grids and its SDCs to improve the reliability of the electric grid sector and increase the market value of the Company and its SDCs;
- enhance the transparence and maximize the disclosure of information about Russian Grids activities, improve the corporate governance system;
- constantly improve the mechanisms for relations between Russian Grids and shareholders and potential investors with due consideration to the Company's obligations to third parties;
- improve the existing forms and methods and develop new forms and methods for maintaining relations with shareholders to facilitate the exercise of their rights with due regard to the emergence of new shareholders, the emergence of new interests of shareholders, and the development of advanced means of communication for shareholder relations.

Corporate Administration Structure



Corporate Administration Structure

As of December 31, 2013, Russian Grids was a shareholder of 42 open joint-stock companies and a member of one limited liability company and five not-for-profit organizations (nonprofit partnerships). Out of the 42 joint-stock companies, 41 joint-stock companies are subsidiaries or dependent companies of Russian Grids, with Russian Grids holding a stake of over 20% in each of them.

The corporate administration of SDCs is effected through the Company's representatives in:
- management bodies:
  - General Meetings of Shareholders;
  - Boards of Directors;
- control bodies:
  - Internal Audit Commissions.

Highest Executive Body

The highest executive body of Russian Grids is the General Meeting of Shareholders. In accordance with the Articles of Association of Russian Grids, 15 members of the Board of Directors are elected by the General Meeting of Shareholders by cumulative vote for a term until the next Annual General Meeting of Shareholders. The General Meeting of Shareholders may decide on early termination of their powers only with regard to all members of the Board of Directors.

The Board of Directors is the collegial body in charge of the general management of the Company's activities and responsible for formulating the strategy, controlling the activities of executive bodies, and protecting the rights and legitimate interests of shareholders.

In order for the Board of Directors to perform its functions in the most effective way and with the aim of preliminarily considering the most important issues falling within the competence of the Board of Directors, the Board of Directors has six committees:
- Audit Committee;
- Investment, Technical Policy, Reliability, Energy Efficiency, and Innovation Committee;
- Valuation Committee;
- Strategy Committee;
- Society, Customer, and Government Relations and Information Policy Committee;
- Nomination and Remuneration Committee.

Independence of Members of the Board of Directors

As specified in the Corporate Governance Code of Russian Grids (hereinafter, the "Code"), for objectivity of approved decisions and keeping the balance of interests of various groups of shareholders, the Company makes efforts to have at least 3 (three) independent directors in the Board of Directors.

In accordance with the Code, independent directors are directors meeting the following independence requirements:

- at the time of election and during 3 years preceding election, they shall not be officers or employees of the Company;
- they shall not be officers of any other economic entity in whom any officer of the Company is a member of the Nomination and Remuneration Committee of the Board of Directors;
- they shall not be spouses, parents, children, brothers and sisters of officers of the Company or officers of the Company's management organization;
- they shall not be affiliated persons of the Company, except for a member of the Board of Directors of the Company;
- they shall not be parties to the obligations with the Company, pursuant to the conditions of which they may purchase property (receive money) with the value exceeding 10 percent of the cumulative annual income of the said persons, except for remuneration for taking part in the activities of the Board of Directors of the Company;
- they shall not be representatives of the government and/or local authorities, i.e. persons who must vote in accordance with written directives (instructions, etc.) of authorized federal authorities, public authorities of constituents of the Russian Federation or local authorities.

Currently, the Board of Directors of Russian Grids consists of 15 members, and 8 members are independent directors meeting the criteria established in the Corporate Governance Code.

Mechanisms for the Involvement of Shareholders and Employees in Administration

Russian Grids' shareholders are involved in administration both through participation in the General Meeting of Shareholders and by means of forming the Company's management bodies. The management bodies of Russian Grids define the position of the Company's representatives at general meetings of shareholders of SDCs and on boards of directors of SDCs on certain issues put to a vote. Such key issues include:

- defining agendas of general meetings of shareholders (members) of SDCs;
- reorganizing or liquidating of SDCs;
- determining the number of members of boards of directors of SDCs, nominating and electing such members, deciding on early termination of their powers, etc.

For the purposes of controlling financial and economic activities of SDCs and complying with corporate governance procedures, the Company's representatives take part in the work of internal audit commissions of SDCs.

In 2013, the Board of Directors addressed various issues related to the Company's activities and falling within its competence. The Board of Directors held 38 meetings (eight in person and 30 in absentia) dealing with 193 issues, some of which are listed below:

- review of the draft of the consolidated investment program for 2013–2018;
- review of the Regulations for the Uniform Technical Policy in the Electric Grids of Russian Grids;
- implementation of measures specified in the Road Map "Expanding Access of Small and Medium-Sized Businesses to Purchases of Infrastructural Monopolies and Government-Linked Companies" approved by the Ordinance of the Government of the Russian Federation;
- functioning (operation) of power facilities, including an analysis of power supply risks affecting Olympic Games facilities within the responsibility of Russian Grids;
- review of the Strategy for Development of Russian Grids.

02 CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY SYSTEM

2.1. Stakeholder Relations

List of the Group of companies "Russian Grids" Stakeholders

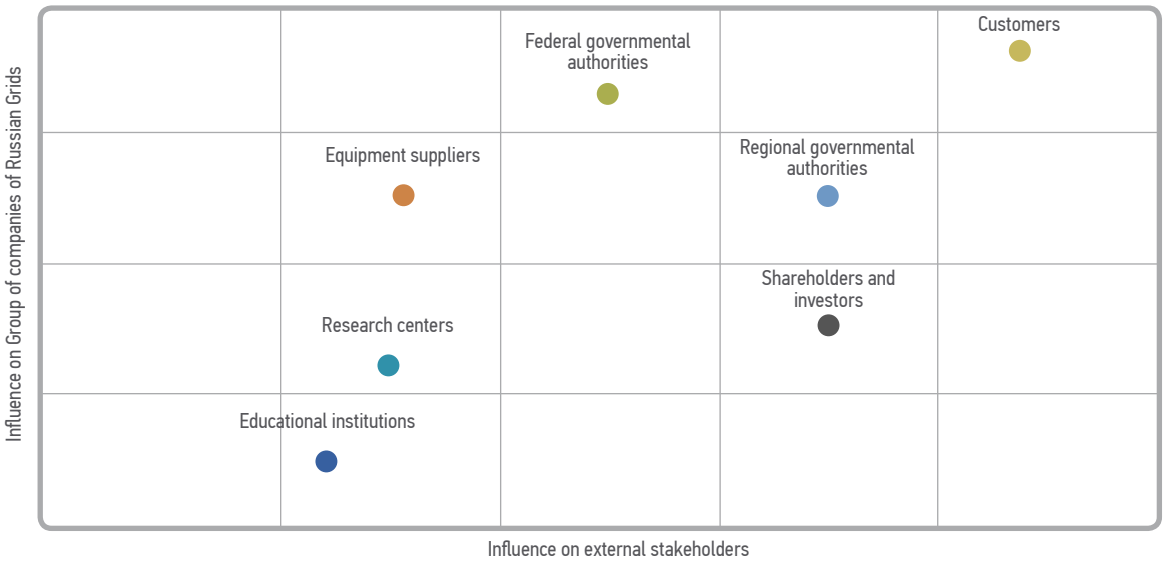
In their stakeholder relations, the Company and Russian Grids' SDCs have the following main groups of stakeholders:

- customers of Group of companies "Russian Grids" (consumers of electricity transmission and distribution services, connection applicants, electricity consumers);
- business community (electricity market participants, power equipment manufacturers and suppliers, contractors);
- Russian federal and regional governmental authorities;
- educational institutions and research centers;
- shareholders and investors;
- general public (public organizations and associations, media).

Rationale for Identifying and Selecting Stakeholders

The rationale for identifying and selecting stakeholders for the purpose of building up relations with them is the assessed influence on the operating activities and strategic development of Russian Grids, the existing practices of interaction between the Company and external stakeholders, and their dependence on the electric grid sector's results. The diagram below contains stakeholder influence mapping for Russian Grids and its SDCs.

Russian Grids' Stakeholder Influence Map



Approaches to Stakeholder Relations

Russian Grids' stakeholder relations are based on the following principles:

- compliance with laws and fulfillment of the Company's obligations;
- understanding of stakeholder interests and expectations;
- transparency;
- performance evaluation and constant improvement.

These principles are implemented in all varied forms of stakeholder relations of the Company and its SDCs.

Stakeholder	Forms of Stakeholder Relations	Methods for Studying Stakeholders' Interests and Needs
Customers	Receipt of requests and appeals. Customer Service Centers. Customer reception points on EGD sites and at PU. Operational dispatching units. Hotline call centers. Consultations. Polls, questionnaire surveys. Publications in the media. Conferences, forums. Corporate media, including the website.	Polls, questionnaire surveys, focus groups, monitoring, market research.
Business community	Negotiations, meetings. Publications in the media. Corporate media, including the website. Competitive bidding-based purchases. Conferences, forums.	Professional communications, cooperation with professional organizations.

Identified Key Subjects and Interests	Measures Taken by Russian Grids in the Reporting Period
Service quality	The Uniform Customer Service Quality Standards was introduced. Customer service centers were provided with modern equipment (electronic queue management systems, payment terminals, and self-service information kiosks).
Territorial accessibility and convenient conditions of customer service	In 2013, the Company set up 79 subscriber offices for face-to-face service for households in 11 Russian regions and opened 14 customers service centers, including two high-standard customer service centers in Kaliningrad and Moscow. As at the end of 2013, employees of customer service centers received about 1.5 million face-to-face inquiries (up by 24%). Online customer service was expanded.
Transparency and publicity in customer relations	The councils of customers, collegial bodies under the management bodies of grid organizations, were formed.
Timely and affordable network connections	The Uniform Network Connection Portal at портал-тп.рф was launched. In 2013, the number of network connection requests grew by 15%. In 2013, the average network connection fee was 70% down from the highest fee in 2010.
Improvement of the regulatory and legal framework Improvement of the electricity supply reliability with transition to world standards	With the participation of Russian Grids, the Road Map "Enhancing the Affordability of the Power Infrastructure" was approved.
Efficient handling of customer requests	The fully functional multichannel customer service system was set up. Personal login pages were upgraded and provided with expanded functionality. Remote customer service over the telephone was expanded through call centers and numbers of the operational dispatching units (electric grid districts/production units) of SDCs.
Prompt accident recovery work	Hotlines received messages from customers about failures in electric grids' operations.
Reliable and predictable partner relations	The Company interacted with manufacturers of electrical equipment and contractors in accordance with the Uniform Technical Policy in the Electric Grids approved by the Board of Directors of Russian Grids (Minutes of the Meeting No. 138 of October 23, 2013). As at the end of 2013, the Company had four long-term supply contracts and 94 cooperation agreements, including agreements with 73 domestic equipment manufacturers.
Support for domestic manufacturers and localization of foreign manufacturers	The Company carried out the Support and Stimulation Program for Development of Domestic Equipment Manufacturers. The proportion of domestically produced electrical equipment purchased by Russian Grids increased to 53.6%. In 2013, the Company signed three long-term equipment supply contracts with Siemens (Siemens LLC), Hyundai (Hyundai Electric Systems LLC), and Toshiba (Izhora Transformers LLC).
Mutually beneficial cooperation	Manufacturers were involved in formulating and implementing the Company's R&D Program. Manufacturers were provided with assistance in introducing modern equipment into electric grid facilities. The Company cooperated with manufacturers in personnel training for the operation of equipment. Manufacturers were involved in preparing the Company's documents governing basic production processes and the development of the electric grid sector. The Company cooperated with manufacturers in organizing energy-related seminars. Russian Grids was active in supporting the participation of manufacturers in conferences, exhibitions, technical meetings, and workshops on the organization of new production and on new electrical products. The Company provided support for foreign partners in interacting with the Federal Customs Service and the Ministry of Economic Development of the Russian Federation.
Relations based on confidence	In a timely manner, Russian Grids defined its requirements of electrical equipment and informed manufacturers of them in preparing the Company's capex program.
Fair competition	Russian Grids is in the process of switching over to centralized purchases at the Company's level with the uniform function to be transferred to its separate division. The share of sole source purchases was brought down to 4% in the reporting period.
Proper performance and transparency of contractual obligations	Electrical equipment, materials, and systems used by electric grid facilities were certified. The Company ensured transparent certification and provided full informational support for applicants in the course of certification. Russian Grids monitored the provision of aftersales service and post-warranty service for equipment supplied to its facilities.

Stakeholder	Forms of Stakeholder Relations	Methods for Studying Stakeholders' Interests and Needs
Governmental authorities	Participation in governmental programs of socio-economic development. GR, participation in parliamentary hearings, initiation of changes in and enactment of new legal regulations. Conferences, forums. Membership in energy-related expert organizations. Meetings, negotiations. Publications in the media.	Meetings, negotiations, consultations, membership in energy-related expert organizations, working groups, etc.
Research and educational institutions	Negotiations, meetings. Publications in the media. Corporate media, including the website. Competitive bidding-based purchases. Conferences, forums. Negotiations, correspondence. Agreements. Joint programs.	Meetings, negotiations, consultations, public hearings, social studies.

Identified Key Subjects and Interests	Measures Taken by Russian Grids in the Reporting Period
Compliance with legal regulations and technical standards Support for improving the industry's regulatory framework	The Company took part in preparing documents for the strategic planning and technical regulation of the industry. Russian Grids acted under interaction and cooperation agreements with governmental authorities in the regions of the Company's and its SDCs' operations.
Operating security of electric grid facilities	The Company was active in cooperating with regional governmental authorities and the Ministry of Civil Defense, Emergencies and Disaster Relief of the Russian Federation by regularly organizing joint on-site workshops on electrical safety.
Maintenance of social stability	In order to prevent social tension from rising in the regions where suppliers of last resort lost their SOLR status; in its negotiations both with winning bidders and with the Ministry of Energy of the Russian Federation, Russian Grids worked to cause winning bidders to hire all of such employees.
Environmental protection	The Company carried out the Programs of Environmental Policy Implementation. Overall, air emissions decreased by 10.5% and waste was down by 2.6% in 2013. In 2013, MOESK, IDGC of South, and FGC UES completed the projects to develop and implement the energy management system. In the reporting period, total environmental protection expenses rose by 2.4%.
Use of innovative and energy efficient technology	The Company formulated the innovative development, energy conservation, and energy efficiency policies. Pursuant to Order of Russian Grids No. 572 of September 17, 2013, the Scientific and Technical Council of Russian Grids was formed. The design was prepared and a test field was set up for Intellectual Power System with an Actively Adaptive Grid (IPS AAG) solutions; the IPS AAG laboratory was created. The Digital Substation Test Field (DSTF) was put into operation. Prototypes of DC cables were made of high-temperature superconductor materials and tested. A general information model was developed for the IPS AAG grid (CIM/RDF); regulatory documents were formulated for its operation and maintenance based on IEC 61968 and IEC 61970. The "Energy Breakthrough" All-Russia Contest of Innovative Projects was held.
Efficient use of budgetary funds	As part of carrying out Instructions of the President of the Russian Federation No. P/p-846 of April 8, 2011, and ensuing Instructions of First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-5809 of August 15, 2011, the Company gained an economic effect from procurement in the amount of 12.5 billion rubles, inclusive of VAT, or 11% of the planned purchase price.
Participation in projects based on public-private partnership	Russian Grids took part in preparing and holding the 2014 Winter Olympics and Paralympics.
Reliable and predictable partner relations	In 2013, the Company was engaged in implementing partnership programs with 129 higher education institutions, including 71 under cooperation agreements. Partner relations were maintained with 162 vocational education establishments in all regions of SDCs' operations.
Improved quality of educational programs	The Company's SDCs were involved in the development/refinement of educational institutions' energy-related training programs (including engineer training programs and master's degree programs). Employees of the Company's SDCs participated in the training process.
Support for priority R&D projects	ODissertation-level research was organized on issues vital for the electric grid sector's development. Students and postgraduates were involved in work and research on issues related to electric grid companies' activities.
Improvement of the physical infrastructure of research and educational establishments	In cooperation with FGC UES, the Company opened two energy colleges in Kaspiysk and Vladivostok and set up an electrical laboratory at Nevinnomyssk Energy Training School. In 2013, LENENERGO provided software and hardware for training in modern communications and remote control systems at the Saint Petersburg State Agrarian University, and IDGC of Siberia provided samples of electric grid equipment for nine higher education institutions located in the regions of the company's operations.
Organization of practical studies and traineeships	Curators were appointed for final graduation works; practical studies and traineeships were organized. About 2,500 students have externships and internships at electric grid facilities annually.
Support for social initiatives from students of higher education institutions and vocational education establishments	On October 21, 2013, during the All-Russia Forum of Student Labor Brigades in Sochi, Russian Grids signed a cooperation agreement with Russian Student Brigades. The work of student labor brigades at electric grid facilities is organized annually.

Stakeholder	Forms of Stakeholder Relations	Methods for Studying Stakeholders' Interests and Needs
Shareholders and investors	General Meeting of Shareholders. Board of Directors. Negotiations, correspondence. Publications in the media. Corporate media, including the website. Conferences, forums. Publication of annual and non-financial reports, audits. Publication of information materials (books, reference books, booklets).	Communications with analysts and the investor community, seminars.
General public	Media centers of subsidiaries. Press conferences, press tours. Publication of information materials (books, reference books, booklets). Publications in the media. Corporate media, including the website. Meetings, forums, business breakfasts, etc. Organization of events. Charity and sponsorship. Social advertising.	Meetings, negotiations, consultations, public hearings, social studies.

2.2. Development of the Non-Financial Reporting System

About this Report

This sustainability report of Russian Grids covers the period from January to December 2013. Information on the non-financial aspects of electric grid companies is published in accordance with the G3 Sustainability Reporting Guidelines released by the Global Reporting Initiative (GRI 3.1).

The previous 2012 Corporate Social Responsibility and Sustainability Report was published in 2013. This is the fourth non-financial report of the Russian Grids Group.

Russian Grids uses an annual cycle of corporate social responsibility and sustainability reporting. The Company intends to continue publishing non-financial reports every year.

As specified in the Corporate Governance Code of Russian Grids approved by the Board of Directors (Minutes of the Meeting No. 101 of November 30, 2012), the following principles underlie the Company's corporate governance:

- accountability;
- justice;
- transparency;
- responsibility.

The publication of non-financial reports is fully in accordance with the principles of corporate governance and proves that the Company's management is committed to sustainability values and high corporate culture standards.

The selection of topics and issues covered by this report is based on the results of interaction with all stakeholders in compliance with the GRI G3.1 recommendations. The main topics in 2013 were customer relations, innovation policy, and occupational and environmental safety.

Identified Key Subjects and Interests	Measures Taken by Russian Grids in the Reporting Period
Improved appeal of the Company for investors High returns on investment and high liquidity Growing market capitalization Transition to RAB regulation Guaranteed payback Transparent and efficient corporate governance Timely and complete disclosures	In 2013, the Company regularly disclosed its IFRS financial results and published the Management Report (MD&A) prepared in accordance with the requirements of the UK regulator. Press releases on corporate highlights were posted on the London Stock Exchange website through the Regulatory News Service. The Company's senior management communicated in 2013 with investors and analysts at Russian and international investment forums, at one-on-one meetings, and via conference calls, discussing the disclosed financial performance of Russian Grids.
Reliability, relevance, and completeness of information Enhanced transparency and openness of work High professionalism in communications Support for socially important initiatives Development of culture Child protection Support for physical culture and sports	In the reporting period, the Company arranged about 100 press tours. Relations with the journalist community resulted in around 1,023 industry-related publications in the reporting period. A new printed publication, the Rossiyskie Seti corporate newspaper, was registered in September 2013. In the course of preparing and holding the 2014 Winter Olympics and Paralympics, Russian Grids operated a media center at the unified Sochi Power District Headquarters. In order to prevent children's electrical injuries, the Company's employees gave about 7,000 lessons across the country in 2013. In 2013, Russian Grids and its SDCs gave charitable endowments to the Society of Friends of Peterhof, the Valery Gergiev Foundation, and the Voskresensky Novodevichy Convent and supported events held by the Artist Charity Foundation for Assistance to People of Art, the Adults and Children charitable music program, and the Illustrated Books for Visually Impaired Children Charity Foundation. The Company's plans include setting up a nonprofit organization for the development of sports. In 2013, with support from Russian Grids, the project to build a new sport and recreation center was completed in Kaspiysk, Republic of Dagestan.

Russian Grids sustainability reports cover the operating results of the Company, its divisions, subsidiaries, and their branches in the Russian Federation.

The sources of information for this document are mainly the performance reports of Russian Grids divisions. The financial indicators contained in Section 7.1 correspond to the IFRS consolidated financial statements of the Russian Grids Group for 2013.

This report uses the terms and definitions set forth in the GRI G3.1 Sustainability Reporting Guidelines. The compliance table to GRI G3.1 Guidelines is contained in Section 11.

The materials of this report were assessed by experts on corporate social responsibility and sustainability. Their opinions are contained in Section 12 "Report Assurance".

Development of Non-Financial Reporting

In 2013, GRI launched the fourth generation of its Guidelines, G4. GRI will continue to recognize reports based on the G3 and G3.1 Guidelines for up to two full reporting cycles until December 31, 2015. Russian Grids plans to implement all necessary organizational measures next year to ensure the transition to G4.

Russian Grids strives to improve its corporate governance system to ensure that stakeholders are provided with complete and reliable information on the performance results of the Company and its SDCs. The Company intends to pay more attention to stakeholder relations in the following reporting period in accordance with the GRI G4 recommendations. As part of measures to raise the standards of corporate governance, it is expected that the system of key performance indicators for management will be developed with due consideration to the goals and objectives of sustainability. The approval of the Policy on External Stakeholder Relations will facilitate the improved efficiency of relations with customers, suppliers of equipment and services, educational establishments, and other stakeholders.

You can send your opinion and comments on this report to: www.info@rosseti.ru.

03 STRATEGY FOR REPUTATIONAL POLICY DEVELOPMENT AND INTEGRATED COMMUNICATIONS MANAGEMENT

3.1. Principles and Practices of Disclosures

Building up dialog with all stakeholders and ensuring the openness and transparency of activities are important components of the Russian Grids communications policy.

The following fundamental principles underlie the Company's information policy:
- openness;
- accessibility;
- timeliness;
- regularity;
- reliability;
- completeness.

An important information resource is the corporate website of Russian Grids (http://www.rosseti.ru/), containing up-to-date relevant information about the activities of the Company and its SDCs. As required under law, Russian Grids also publishes disclosures by using a webpage provided by Interfax, a major securities market news agency (http://www.e-disclosure.ru/portal/company.aspx?id=13806), and a periodical, the Izvestia newspaper.

Information on corporate highlights is posted by Russian Grids on the London Stock Exchange (LSE) website through the Regulatory News Service (RNS) (http://www.londonstockexchange.com).

A varied selection of methods for disclosing information about its activities enables the Company to considerably improve the efficiency of informing the market and provide stakeholders with the simplified search for information, which proves the stability of the Company's information policy and its commitment to the regular and timely disclosure of important corporate news to all stakeholders. Information disclosed by the Company is sufficient to gain a full understanding of the real situation at the Company without any negative facts concealed.

To apply the principles of disclosures and supervise their implementation, the Company has special shareholder/investor relations divisions, namely the Unit for Support for Shareholder Rights and the Shareholder and Investor Relations Division of the Department for Corporate Governance and Shareholder and Investor Relations. Any stakeholder can contact these divisions and obtain all necessary information. Contact information is posted on the Company's website in the Investors/Feedback section (http://www.rosseti.ru/investors/feedback/hotline/).

In June 2013, the Company set up the Department for Corporate and Anti-Corruption Compliance Procedures reporting directly to the Director General. The department is responsible for anti-corruption measures to prevent, identify, and combat corruption and minimize reputation and corruption risks.

The following main areas of work were prescribed for the Department for Corporate and Anti-Corruption Compliance Procedures in the reporting period under the approved Anti-Corruption Policy of the Company:
- procurement;
- anti-corruption due diligence;
- anti-corruption monitoring;
- acceptance and investigation of whistleblower allegations;
- conflict of interest management;
- counterparty relations, formation of the Company's and SDCs' senior management;
- government relations;
- involvement in political activities;
- participation in charitable activities and sponsorship;
- payments through intermediaries or in favor of third parties;
- corruption prevention, legal education, and development of lawful behavior in the Company's employees.

3.2. Main Areas of Integrated Communications

3.2.1. Channels of Communications

The Company adheres to the principles of disclosing information to all stakeholders via publicly available sources with maximal territorial coverage across Russia. The main channels of internal and external communications are the mass media: printed media, television, radio, news agencies, and the websites of the Company and its SDCs.

Internal Communications

The Company operates and constantly improves its system of internal communications to ensure that employees are informed in a timely and unbiased manner about issues related to the activities of the Company and its SDCs.

Rossiyskie Seti Corporate Newspaper

In September 2013, the Federal Service for Supervision of Communications, Information Technology and Mass Media of the Russian Federation registered a new printed publication, the Rossiyskie Seti corporate newspaper. The new corporate source of information is designed to help each employee of the Company understand his or her important role in achieving the Company's goals.

In each edition of the newspaper, management of Russian Grids and representatives of the expert community tell the reader about trends in the country's electric grid sector and discuss issues that attract the attention of employees of the Company and its SDCs. The newspaper reports on sectoral and social projects carried out by the Company. The reader can learn about key events in the implementation of the Company's technical, customer, innovation, social, and anti-corruption policies and about employees attaining high performance indicators or having personal achievements.

The main columns of the newspaper deal with the Company's innovative development, modernization, and advances in research and discuss best practices of specific operating entities. For instance, several articles explored the theme of developing the electric grid sector in some Russian regions. The principles of reliability, timeliness, and accessibility underlie the methods used by the Rossiyskie Seti newspaper for selecting and presenting any printed material. The corporate newspaper is distributed to all branches of the Company's SDCs, which makes it available to each electric grid district and each electricity transmission grid entity.

Archived copies of the newspaper are publicly available on the Company's corporate website in the Media/ Rossiyskie Seti section.

Best Energy Worker of Olympic Sochi

In the course of preparing and holding the 2014 Winter Olympics and Paralympics, Russian Grids staged the professional contest "Best Energy Worker of Olympic Sochi" among electric grids' employees participating in the rehabilitation and operation of local power facilities and sports infrastructure.

The contest aimed to improve motivation of the operating personnel involved in the rehabilitation and modernization of electricity networks in the Sochi power district.

On a monthly basis from July 2013 to March 2014, special juries selected winners from among regular and temporarily assigned employees of Russian Grids subsidiaries (Kubanenergo's Sochi Electricity Networks and FGC UES's South MES Sochi Enterprise) in the following categories:

- Best Engineer;
- Best Foreman;
- Best Electrician;
- Best Electrical Mechanic;
- Best Driver/Operator of Special Vehicles;
- Best Dispatcher.

The juries were composed of CEOs, managers, and employees of divisions responsible for the operation of substations and overhead lines, occupational safety, reliability, and human resource management and other experts.

The winners were given prizes by Director General of Russian Grids Oleg Budargin at monthly award ceremonies. All winners received prize money. Brief interviews with all winners were published in the Olympic Energy special corporate newspaper, and Sochi's major printed media and TV channels reported on each of them.

An atmosphere of competition made it possible to encourage employees to demonstrate their best professional and personal qualities, team spirit, and determination in the workplace.

External Communications

Corporate Website

A key official source of information concerning the Company's activities is its corporate website (www.rosseti.ru).

The number of visitors to the Company's corporate website increased by 15% on the average to 692,070 in 2013 (compared with 603,974 in 2012). Foreign visitors (the geographical division is Russia and the rest of the world) to the whole site (not only the English version) accounted for around 28%, or about 194,000, in 2013.

Printed and Electronic Media

The total number of publications dealing with the activities of the Company and SDCs in 2013 is 117,549. Russian Grids was mentioned in more than 20,000 publications. Among distribution companies, the greatest activity was shown by IDGC of Centre (8,985 publications), IDGC of Urals (8,159), IDGC of North-West (7,070), and MOESK (7,174).

In 2013, neutral publications accounted for the largest share (over 60%). Overall, negative and positive publications represented 2% and 35% respectively.

Television and Radio

In the reporting period, radio and TV broadcasters aired about 100 items mentioning the Company.

Participation in Conferences and Exhibitions

In the reporting period, Russian Grids took part in the 17th St. Petersburg International Economic Forum (Saint Petersburg, June 20–22, 2013) headlined "Prospects for the Global Economy: Time for Decisive Action". As part of the Forum, Russian Grids organized a roundtable discussion on "Accessible Grids: Investor Attraction or Social Infrastructure?" at the Lenexpo Exhibition Complex. The roundtable dealt with the key issues of building an energy system and addressed the possible areas of the electric grid sector's development.

Under the Forum's business program, Russian Grids held several meetings and signed about 20 important agreements with major Russian and foreign industrial and financial companies, including Hitachi, Dena, Rigel, GLONASS Union, Mitsubishi Motors, etc.

The first day of the Forum also included an award ceremony for the winners of the "Energy Breakthrough" All-Russia Youth Contest of Science-Intensive Innovative Projects and Developments; on June 22, Russian Grids participated in the Global Energy Prize Ceremony.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3.2.2. Principal Areas of the Communications Policy

Investor Relations

Traditionally, Russian Grids top management held conference calls for investors in 2013 about the publication of the Company's IFRS consolidated financial statements. The conference calls enabled the Company to inform the investor community of its financial results, update investors on its operational and financial forecasts, and answer all questions.

Activities in investor relations took place at international forums, platforms and one-on-one meetings.

Media Relations

As part of its efforts to develop communications with the journalist community, the Company regularly organizes press tours of its facilities and SDCs' sites timed to coincide with significant corporate events. About 15 press tours took place in the reporting period.

Government Relations

Russian Grids is active in cooperating with regional governmental authorities and the Ministry of Civil Defense, Emergencies and Disaster Relief of the Russian Federation by regularly organizing joint open on-site workshops on electrical safety. Near public places in populated areas and near fishing places by the waterside, readily comprehensible warning signs and boards are installed every year.

In the course of preparing and holding the 2014 Winter Olympics and Paralympics, Russian Grids operated a media center at the Unified Sochi Power District Headquarters to interact with regional governmental authorities, local governments, and public organizations and provide information about the preparation of Sochi electricity networks and their functioning during the Olympic Games.

Customer Relations

To provide customers with information in a timely and reliable manner, SDCs' websites are supplemented with customer relations pages containing all necessary data about the Company's services and events. Russian Grids launched a uniform customer relations website at ПОРТАЛ-ТП.рф in 2013.

As at the end of 2013, employees of customer service centers received about 1.5 million face-to-face inquiries, or up by 24% on the previous year.

Relations with the General Public

In cooperating with the nationwide and regional media, the Company's SDCs regularly inform the general public of significant operational achievements and the implementation of social programs.

A priority of the Company's information policy is to prevent injuries affecting outsiders at electric grid facilities. Together with the executive arm of Russian Grids, all SDCs take measures, including jointly with the mass media, to tell the general public about electrical hazards and safety precautions for outsiders near electrical installations. In order to prevent children's electrical injuries, Russian Grids developed technical and informational measures. The Company's employees gave about 7,000 lessons across the country in 2013 only.

Relations with Foreign Partners

Russian Grids cooperates with foreign manufacturers in setting up joint ventures for the production of high-technology equipment in Russia. As part of cooperation with foreign equipment producers, the Company signed three long-term equipment supply contracts with the official representatives/partners of these manufacturers:

- Siemens (Siemens LLC) for the supply of transformer equipment rated 110–220 kV and 40–MVA;
- Hyundai (Hyundai Electric Systems LLC) for the supply of SF6-insulated factory-assembled switchgear rated 110–500 kV;
- Toshiba (Izhora Transformers LLC) for the supply of transformer equipment rated 110–750 kV.

Under the above-mentioned long-term contracts, three new modern high-tech equipment factories using recent engineering advances and innovative technologies were built in the Russian Federation. Putting the factories into operation will create as many as 1,500 new jobs. Engineers and technicians will acquire industrial skills to foreign corporate standards, which will be beneficial to the development of Russia's technological potential.

In order to bring down equipment production costs of the joint ventures, Russian Grids assists its foreign partners in interaction with the Federal Customs Service of the Russian Federation and the Ministry of Economic Development of the Russian Federation to reduce customs duties on imported components.

Anti-Corruption Policy

In 2013, the Department for Corporate and Anti-Corruption Compliance Procedures implemented the unified verification system for information on the owner chain of counterparties of Russian Grids and its SDCs, including beneficiaries (including ultimate beneficiaries) and the mechanism for processing personal information in disclosing information on the owner chain of counterparties.

Under the Anti-Corruption Policy as applicable to the procurement of goods, work, and services for the Company, anti-corruption standards of procurement were developed, and employees carried out preventive measures on a constant basis to avoid any financial and reputational risks, corruption, and other abusive practices.

In 2013, the Company created an online whistleblower reporting channel at www.rosseti.ru/about/contacts/ option to receive allegations of corruption at Russian Grids and its SDCs. On receipt of allegations via the online whistleblower reporting channel, nine on-site inspections took place to check information about possible corruption.

In the reporting period, Russian Grids started work on corruption prevention, legal education, and development of lawful behavior in the Company's employees to promote anti-corruption consciousness and encourage a negative attitude toward corruption on the part of the Company's personnel.

In 2014, the Department for Corporate and Anti-Corruption Compliance Procedures plans to introduce a unified mechanism for conflict of interest management into the Company and SDCs, automate the process of collecting, verify, and consolidate information on the entire owner chain of participants in procurement. It is also planned to arrange workshops/training events for employees of the Company and SDCs in relation to corruption prevention, legal education, and development of lawful behavior.

3.3. Measures to Implement the Uniform Information Policy

Under the uniform communications policy, Russian Grids approved the standards, rules, and requirements applicable to communications between the Company and its SDCs and to relations with all stakeholders. This policy identifies top-priority target audiences in order to establish effective communications with the aim of shaping a favorable business and social environment for the Company. Communications with small and medium-sized businesses; big business; the energy-related business, scientist, and expert communities; public organizations; and other stakeholders are systematic and target-oriented.

The media centers of grid companies at different levels and the information departments of EMERCOM, the Russian Ministry of the Interior, and regional and municipal administrations interacted effectively in 2013 and signed memorandums on informational interaction.

Specifically, the structure of operating entities' websites was aligned with the structure of the Company's corporate website, and the Parent Company's corporate identity is obligatorily used for them. This allows both employees and outsiders visiting the Group's websites to see continuity and uniformity with respect to the Company's information policy.

Russian Grids is constantly engaged in creating a single information space by introducing a uniform policy on shareholder/investor relations into the electric grid sector. For example, annual IR seminars are arranged for

SDCs, and information disclosed on their websites is checked for timeliness and completeness. Additionally, the Company maintains constant dialog with shareholders and various groups of investors and professional securities market participants, organizes meetings, conference calls, and presentations of strategic plans and operating results, prepares replies to inquiries sent by shareholders and investors, and has a shareholder hotline.

As part of its efforts to interact with the Company's SDCs and coordinate their external communications, the Department for Corporate and Anti-Corruption Compliance Procedures develops uniform anti-corruption standards, provides methodological assistance, and supervises the implementation of the Anti-Corruption Policy. In 2013, work was done on improving the Company's and SDCs' anti-corruption measures to create a uniform legal anti-corruption framework for the electric grid sector.

04 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

4.1. Organizational Structure and Goals of Internal Control and Risk Management

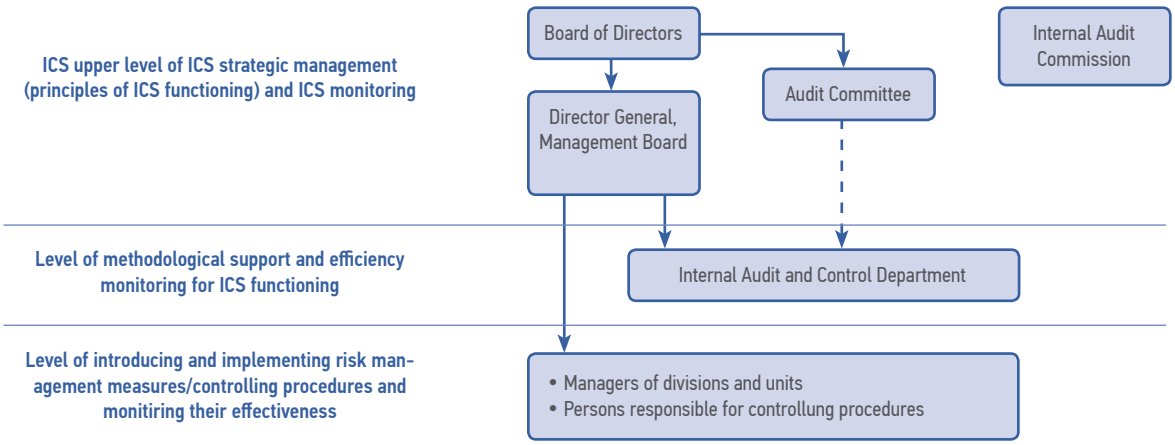
The principal goals of the internal control and risk management system are as follows:
- efficiency, cost effectiveness, and productivity of organizing the Company's and its SDCs' activities;
- compliance with the legal requirements applicable to the Company's and its SDCs' activities and with the requirements set forth in the Company's internal documents;
- prevention of wrongful acts on the part of the Company's and its SDCs' employees and third parties in relation to the Company's and its SDCs' assets;
- reliability, completeness, and timeliness of preparing all kinds of reports.

The effectiveness of the internal control system relies on the interrelationship of three constituent management processes:
- **Organization of efficient internal control over business processes** to achieve the best effect in all areas of the Company's activities: control procedures at business process level facilitate the timely and effective identification of deviations and nonconformities, increase the efficiency of the operating environment, and improve the reliability of financial statements.
- **Risk management:** as a component of the internal control system, risk management facilitates the reduction of risks associated with the Company's failure to accomplish its goals and contributes to setting up protective barriers and preventing abuse.
- **Audit and independent evaluation:** internal audit provides an independent and objective opinion about the reliability and effectiveness of the Company's internal control and risk management system.

4.2. Regulatory Documents Applicable to Internal Control and Risk Management

The internal control and risk management system is governed by the following main documents:
- Strategy for Developing and Improving the Internal Control System of Russian Grids and Subsidiaries and Dependent Companies of Russian Grids;
- Internal Control Policy;
- Risk Management Policy.

4.3. Internal Control System Participants; Their Authority and Responsibility



- The competence of **the Internal Audit Commission** of the Company includes:
  - exercising control of the Company's financial and economic activities;
  - ensuring compliance of the financial and economic operations conducted by the Company with the laws of the Russian Federation and the Articles of Association of the Company;
  - making an independent assessment of information about the Company's financial condition;
  - assuring the reliability of information contained in reports and other financial documents of the Company.
- Within the internal control system, the competence of **the Board of Directors** of the Company includes ensuring the creation, supervising the operation, and defining the general development strategy of the Company's internal control system:
  - defining development strategy of the Company's internal control system;
  - approving the Internal Control Policy of the Company;
  - creating the Company's efficient internal control mechanisms, including reviewing reports and making decisions such systemic, key, and problem issues of internal control as identified by the Internal Audit Commission, by the internal audit, internal control, and risk management function, and by other functions of the Company authorized to inspect the Company's financial and economic activities and the effectiveness of control procedures.
- Within the internal control system, **the Audit Committee** of the Board of Directors of the Company:
  - ensures the selection of the auditor(s) and auditor evaluation;
  - ensures the assessment of the reliability of the Company's financial statements (including external auditors' reports);
  - assesses external auditors' reports;
  - assesses the effectiveness of the internal control system and prepares proposals for its improvement.
- **The Management Board** of the Company reviews and analyzes reports on the state of the internal control and risk management system.
- Within the internal control system, **the Director General** of the Company:
  - ensures the creation and day-today operation of the Company's efficient and reliable internal control and risk management system;
  - submits for consideration by the Board of Directors proposals to improve the internal control system of the Company and SDCs.
- Within the internal control system, **the managers of the Company's units and divisions:**
  - are responsible for the effective attainment of the operating goals of supervised processes (areas of activities);
  - ensure the regulatory documentation of supervised processes (areas of activities);
  - assess supervised processes (areas of activities) for the necessity for their optimization with the aim of improving their efficiency and ensuring that they are consistent with the changing conditions of the external and internal environment, and organize the preparation of proposals to improve control procedures;
  - ensure the implementation of the principles of internal control;
  - manage risks involved in supervised processes (areas of activities) and organize the implementation of control procedures;
  - organize the efficient control environment of supervised processes (areas of activities);
  - ensure that the discovered shortcomings of control procedures and of the control environment of processes are corrected.

- **Personnel of the Company's divisions** who are responsible for control procedures by virtue of their employment duties:
  - implement control procedures within the internal control system as specified in their job descriptions and the applicable regulations;
  - monitor the implementation of control procedures;
  - independently evaluate the effectiveness of implemented control procedures and participate in improving the internal control system;
  - ensure that their immediate supervisors are informed in a timely manner that it is necessary to redesign control procedures/risk management measures due to changes in the internal and/or external environment of the Company's operations, including ensuring the preparation and submission for consideration by management of proposals to introduce control procedures and risk management measures in the relevant areas of activities.

The internal control, internal audit, and risk management function is the Internal Audit and Control Department responsible for:

- preventive and routine control by:
  - developing and ensuring the implementation of basic and methodological documents in relation to building and improving the internal control, risk management, and internal audit system;
  - assisting management in building a control environment and formulating recommendations for describing control procedures and introducing them into business processes and for prescribing responsibilities for officers;
  - coordinating activities in relation to maintaining and monitoring the target state of the internal control and risk management system;
  - applying additional routine control procedures in key and high-risk business processes;
  - interacting with the external auditor of the Company and SDCs with respect to assessing the effectiveness of the internal control and risk management system;
- follow-up control by:
  - assessing the reliability and effectiveness of internal control and risk management;
  - planning, organizing, and conducting internal audits of divisions, branches, business processes, projects, and activities;
  - formulating recommendations to improve the efficiency and effectiveness of activities, improve corporate governance, ensure the effectiveness of internal controls and risk management processes according to the results of internal audits and evaluations;
  - informing management bodies of the audit results and the state of the internal control and risk management system and major trends and changes in activities and submitting proposals to improve the efficiency of activities.

Within the scope of activities of the internal audit commissions of its subsidiaries and dependent companies, Russian Grids uses corporate procedures to assess the efficiency and cost effectiveness of its subsidiaries and dependent companies and evaluate their compliance with the applicable laws and the reliability of their accounting statements. The Internal Audit and Control Department of Russian Grids forms the internal audit commissions of SDCs, prepares regulatory documents to govern their activities, and introduces into SDCs the uniform methodology of organizing and conducting internal audits.

4.4. Measures to Promote Internal Control and Risk Management

The Strategy for Developing and Improving the Internal Control System of Russian Grids and Subsidiaries and Dependent Companies of Russian Grids defines the principal goals and development areas for the internal control and risk management system at all levels (in the Company and its SDCs) and in all processes (areas of activities) of the Company.

Key goals of improving the internal control system:
- integrate the main elements and principles of the internal control system into the general management and decision making system of the electric grid sector;
- implement a maximally efficient model of performing controlling functions that ensures a reasonable level of independence and objectivity;
- develop and introduce uniform standards of internal control, internal audit, and risk management.

The Company's plans for 2014 in the area of organizing internal control and providing methodological support for internal control include the measures listed below:
- in the 1st half of 2014, it is planned to:
  – approve restated versions of the existing internal control and risk management policies;
  – formulate and approve the Internal Audit Policy of Russian Grids and the uniform professional requirements applicable to the staff of the control divisions of the Company and SDCs;
  – formulate and implement the Code of Ethics for Internal Auditors, establishing criteria for loyalty and accountability;
  – prepare basic methodological document related to internal control, internal audit, and risk management;
- with the involvement of all divisions of the Company by the end of 2014, it is planned to:
  – analyze the effectiveness of the main processes (areas of activities);
  – develop measures to optimize the main processes (areas of activities) according to the results of the analysis.

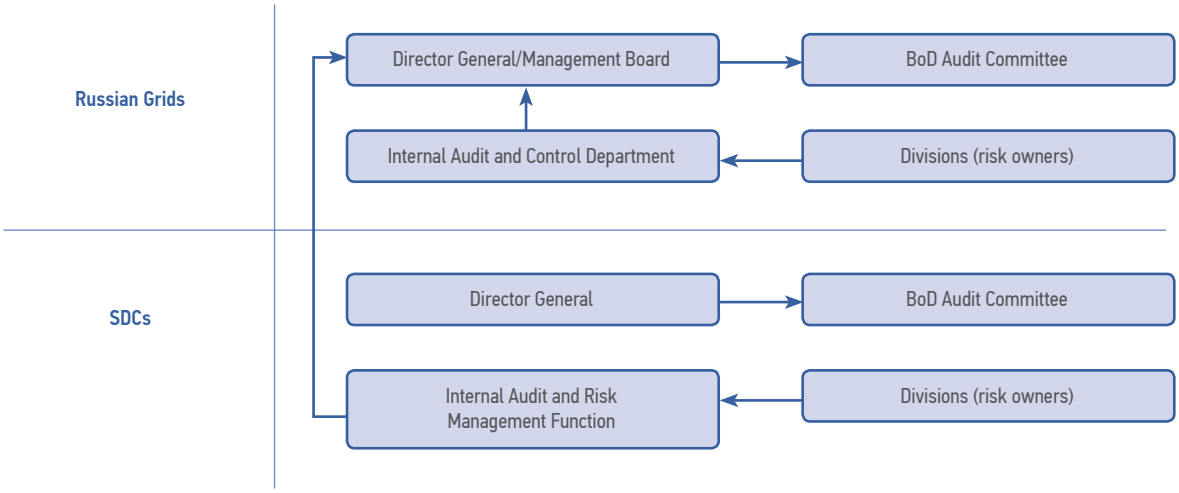
4.5. Risk Management System of the Company and SDCs

Russian Grids operates a risk management system aimed at ensuring the sustained and continued functioning and developing of the Company by means of the timely identification and assessment and efficient management of risks threatening the efficiency of the Company's economic operations, its reputation, the health of its employees, the environment, and the property interests of its shareholders and investors.

The risk management system is governed by the following main documents:
- Risk Management Policy of Russian Grids;
- Guidelines for Organizing Internal Control and Risk Management of Russian Grids;
- Recommended Guidelines for Risk Management of Russian Grids.

Approved by the Board of Directors of the Company on March 26, 2010 (Minutes of the Meeting No. 30), the Risk Management Policy defines the organizational structure of the Russian Grids risk management system and risk information flows as described below.

Organizational Structure and Information Flows of the Risk Management System of the Company and its SDCs



4.6. Key Risks of the Company and its SDCs

4.6.1. Key Risk Factors

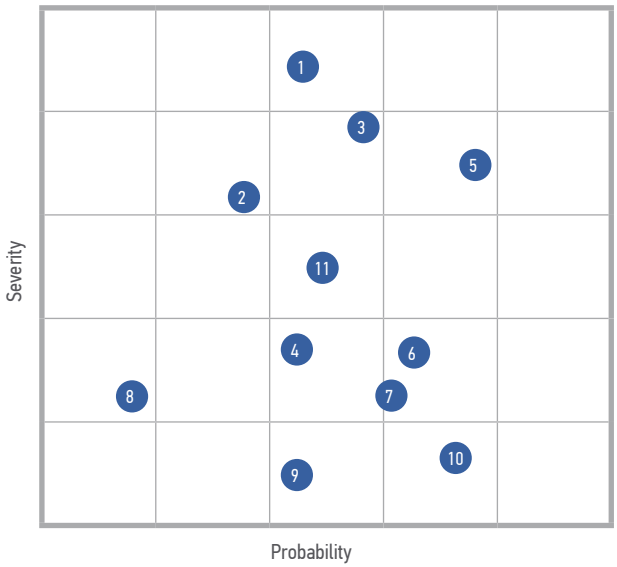
Russian Grids's performance is affected by a number of external factors and risks which are under the limited control of the Company. Although these are mostly macroeconomic factors impacting the Russian economy in its entirety, certain areas of the our activities can be especially sensitive to certain risk factors. The most important risk factors are grouped as follows:

- industry-specific risks;
- country and regional risks;
- financial risks;
- legal risks;
- risks associated with the Company's activities.

The list provided above is incomplete since there are other risk factors which are currently negligible, but later can have an adverse impact on the Company's activities, thus affecting its profit, assets, capital, liquidity, and solvency.

Based on the key risks affecting Russian Grids SDCs in 2013, the Russian Grids risk matrix was constructed.

Russian Grids Key Risk Matrix



1. Tariff risks: risks that not all costs may be included in tariffs.
2. Risks associated with the deviation of actual net electricity delivery from the plan due to macroeconomic factors (country risks: declines in production and decreases in electricity consumption and connected capacity; development of local generation and the like).
3. Risk of lost income resulting from interrupted electricity consumption: risks that the volume of services may decrease due to the termination (failure to renew) last mile agreements with FGC UES.
4. Risks associated with the nonperformance of obligations with respect to network connection services (including the failure by the Company to fulfill its obligations to requesting entities and the abandonment of network connections by requesting entities).
5. Risks associated with taking on and losing the supplier of last resort (SOLR) functions.
6. Risks associated with increases in overdue and uncollectable receivables.
7. Financial risks: inflation, exchange rate changes, interest rate changes, the monetary policy of the Central Bank of the Russian Federation.
8. Legal risks (changes in laws, judicial practice).
9. Compliance risks (compliance with laws, legal regulations, and the Company's internal documents; the use of insider information).
10. Operational and technological risks, including risks associated with the geographical characteristics of the country and the regions of SDCs' operations.
11. Investment (project) risks.

Industry-Specific Risks

The Company carries out corporate management of its subsidiaries and dependent companies. As a result, the Company's risks derive from the risks incurred by Russian Grids subsidiaries and dependent companies.

Tariff risks

The core activities of the Company's SDCs are subject to regulation by the government. Taking account of these special features of Russian Grids's operations, the principal industry-specific risks of the Company are tariff risks.

The government's tariff regulation policy is aimed at limiting an increase in tariffs of electricity distribution and transmission services, which may lead to a shortage of the tariff-based sources of financing SDCs' investing and operating activities.

To minimize tariff risks, the Company and SDCs pursue a balanced policy on improving the efficiency of investing and operating activities, aimed at reducing costs and optimally planning the structure of the financing sources.

Network connection risks

Risks associated with the provision of network connection services for electricity consumers include a risk of a decrease in the volume of connected capacity in network connection requests, including due to switching over to local generation. The major factor of this risk is that the technical specifications issued to a requesting entity may include additional measures necessary to receive network connection, which will result in higher costs and extended deadlines of network connections. There is a risk that financing sources may be insufficient for work under network connection contracts because a regulator may approve network connection fees lower than an economically feasible level.

Due to a great number of network connection requests, the Company's SDCs are not always able to fully satisfy them, which may adversely affect revenues because of the loss of potential customers and carries risks of a violation of antimonopoly laws as related to electricity distribution and network connection services and to litigation initiated by requesting entities.

There is also a risk of lost profits resulting from the failure to perform network connection contracts. The risk stems from the nonfulfillment by requesting entities of their obligations, including from their abandonment of network connections. This leads to the nonutilization of new equipment and to lost profits from electricity distribution services.

In order to reduce risks associated with the provision of network connection services for electricity consumers, work continues on monitoring changes in the maximum capacity requested in network connection requests and on causing Russian Grids SDCs to assume the correct scope of obligations under network connection contracts, and SDCs develop project documents specifying the scope of obligations under network connection contracts and submit to regulatory authorities additional justifying documents.

To facilitate new energy network connections, SDCs improve the process of processing customers' network connection requests by means of using information technology and template solutions. Simultaneously, the process of providing network connection services is explained to customers, including by using the Customer Relations Portal on the Company's website and customer service centers.

In order to mitigate the risk associated with the nonperformance of network connection contracts, SDCs file claims against requesting entities for damages in relation to abandoned network connections. Obligations under network connection contracts, together with the implications of their nonperformance (penalties, extended deadlines of network connections), are explained to requesting entities.

Risk of lost income resulting from interrupted electricity consumption due to cross-subsidies

A substantial industry-specific risk factor is the cross-subsidy mechanism at the expense of large industrial customers in favor of other customer categories, including households. Lost income may arise out of the termination of lease agreements for electric grid facilities that are part of the Unified National (All-Russian) Electric Grid ("last mile").

To tackle the problem of cross-subsidies and reduce lost income due to interrupted electricity consumption, Federal Law No. 308-FZ of November 6, 2013, "On Amendments to the Federal Law 'On the Electric Power Industry' and Article 81 of the Federal Law 'On Joint-Stock Companies'" was enacted whereby it is provided that last mile agreements cease to be effective from January 1, 2014, with some exceptions, provided that agreements with customers are signed in advance. Federal Law 308-FZ sets out the principles of scheduling the reduction of cross-subsidies and defines the procedure for financing such reduction from the budgets of the Russian Federation.

Risks associated with taking on the supplier of last resort status and functions

Due to the enactment of regulatory documents in late 2012 to simplify the procedure for depriving retail companies of the supplier of last resort (SOLR) status, some of the Company's SDCs incur the risks associated with the necessity of assuming the powers and duties of suppliers of last resort that are lost by retail companies. These risks include as follows:

- risks associated with a rise in receivables of ultimate customers and the writing-off of accumulated receivables under electricity distribution services agreements between retail companies and distribution grid companies;
- risks associated with the performance of the supplier of last resort functions in the wholesale electricity and capacity market;
- risks involved in an increase in SDCs' expenses related to the performance of the supplier of last resort functions in excess of the minimum regulated revenue used for the calculation of retail markups;
- organizational risks associated with the loss of competencies and customer databases and with erroneous payments for consumed electricity.

The following risks arise out of the transfer of the SOLR status to winning bidders according to the results of the bidding procedures conducted by the Ministry of Energy of the Russian Federation:

- the risk that a winning bidder may refuse to hire transferred employees after being granted the supplier of last resort status;
- the risk that no measures may be promptly taken to influence nonpayers if an energy supply contract is terminated.

With a view to minimizing these risks, the Company and SDCs take measures to cooperate with federal and regional governmental authorities, the mass media, infrastructural organizations of the wholesale electricity market, law enforcement agencies, and organizations deprived of the supplier of last resort status in the performance of the supplier of last resort functions and the settlement of debts. Additionally, the Company formulates legislative initiatives to streamline the procedure for changing the supplier of last resort.

For the duration of performing the SOLR functions, the Company's SDCs set up energy retail divisions. If the SOLR functions are transferred to winning bidders, this will entail dismissing the employees of such divisions. In order to minimize potential risks, including social risks, in its negotiations both with winning bidders and with the Ministry of Energy of the Russian Federation, the Company works to cause winning bidders to hire all of such employees.

Risks associated with increases in overdue and uncollectable receivables

One of the industry-specific risk factors is imperfect operation mechanisms of the retail electricity market, which entails disagreements between electric grid companies and retail companies over the volume of consumed electricity and capacity used in tariff calculations. This leads to contested and overdue receivables related to electricity distribution services provided by SDCs, impairing the liquidity and financial stability of the Company's SDCs.

The Company and SDCs take the following measures to eliminate the causes of disagreements with customers and reduce contested and overdue receivables for their services provided:

- cause Russian Grids SDCs to gain competence in collecting problem receivables and effectively participating in bankruptcy proceedings against debtors;
- working hard to have success in claims against nonpayers.

With the aim of minimizing these risks, the Program of Russian Grids for Improving the Efficiency of Measures to Reduce Receivables for Electricity Distribution Services was developed and approved by the Board of Directors on February 12, 2014 (Minutes of the Meeting No. 144).

Country and Regional Risks

Since Russian Grids does not perform any operating activities and is only in charge of corporate management, country and regional risks are primarily incurred by the Company's SDCs.

Risks associated with the political and economic situation in the country and region

Country and regional risks incurred by the Company and SDCs are determined primarily by macroeconomic factors existing globally, nationwide, and at regional level. These factors may impair the Company's and SDCs' possibilities for borrowing and adversely impact their liquidity, investment and operating efficiency, and, eventually, shareholder value. Additionally, the global economic crisis has a harmful effect on industrial production and electricity consumption, which reduces revenues of the Company and SDCs.

The primary factors of macroeconomic risks are the continuing global financial crisis affecting the key indicators of commodity and financial markets: prices of crude oil and other commodities, the cost of capital, world currency exchange rates, and inflation. As is the case with the other BRICS countries, Russia is a leading emerging economy and is sensitive to global recessionary pressures. This is due to the economy's dependence on energy prices, the immaturity and volatility of the Russian financial market, and the transitional state of the national banking system.

With the aim of mitigating the macroeconomic risk, the Company and SDCs take comprehensive measures to optimize the share of borrowings in their total capital, take out fixed interest rate loans, and enhance the efficiency of operating and investment expenses of the Company and SDCs.

Risks associated with the geographical characteristics of the country(ies) and region, including high likelihood of natural disasters, possible interruption of transportation due to remoteness and/or inaccessibility, etc.

The Company's SDCs operate in many regions with diverse climatic conditions. Emergencies may be caused by natural calamities (hurricanes, heavy rains, high water and floods, snow drifts, etc.) resulting in interruptions to the region's electricity supply and transportation. Detailed information concerning the management of operational and technological risks is contained in the Risks Associated with the Company's Activities.

Financial Risks

In the event of one or more of the below-listed risks, Russian Grids will take all possible measures to minimize its negative effects. To partly neutralize risks, the Company has taken a number of protective measures and developed possible actions for the Company in case of any given risk.

Risks associated with the monetary policy of the Central Bank of the Russian Federation

When pursuing its monetary policy, the Central Bank of the Russian Federation indirectly affects financial markets and money stock. Recently, top priority has been to maintain stable ruble exchange rate and increase its actual purchasing power. Any actions of the Central Bank of the Russian Federation can both decrease and increase the Company's risks, thus affecting its financial indicators.

Risks associated with exchange rate changes

Currently, the revenue of Russian Grids is entirely denominated in rubles. Virtually all expenses are denominated in rubles, too. In this regard, inflation and exchange rate changes do not considerably impact the financial and business performance of the Company.

Risks associated with interest rate changes

Currently, the Company does not borrows to finance its expenses. The Company is exposed to the risk associated with a decrease in its dividend yield on the shares owned by the Company due to increased interest rates, because this may lead to higher costs incurred by the companies whose shares are held by the Company, ultimately resulting in lower net profits used for paying dividends to the Company.

Risks associated with the effects of inflation

Changes in the consumer price index have certain effects on the profitability of JSC Russian Grids and, consequently, its financial condition and its ability to perform obligations. However, these effects are not a factor of direct dependence.

Legal Risks

The Company does not expect any short-term major risk in its financial and economic activities associated with changes in tax law and currency control or changes in the rules of customs control and duties. The Company's legal risks can be caused by the characteristics of the applicable laws and court system, manifesting itself, in particular, in different court practices on the same issues.

To minimize various legal risks, the Company and SDCs approved local documents aiming to improve the efficiency and transparency of the financial and economic activities of the Company and SDCs and combat corruption. In 2012, the Board of Directors of the Company approved the Regulations for Insider Information and the Code of Corporate Ethics In accordance with the approved documents, the Company takes internal compliance control measures, monitors changes in the regulatory environment, and controls insider information.

Compliance risk

Frequent changes in the laws of the Russian Federation under conditions where the industry is subject to governmental regulation, together with a wide range of regulatory requirements and restrictions, are sources of the risk associated with the failure by the Company and SDCs to comply with laws and other legal regulations, or the requirements established by regulators and supervisors and set forth in internal documents of the Company and its SDCs that determine internal policies, rules, and procedures (compliance risk). Activities of the Company and SDCs are governed and overseen by the following authorities and agencies:

- The Federal Antimonopoly Service supervises activities of the Russian Grids Group, whose SDCs are natural monopoly entities, in relation to compliance with antimonopoly laws.
- Legal regulation and control of the Company's SDCs in the application of tariffs and network connection fees come within the purview of the Federal Tariff Service.
- The Federal Taxation Service oversees whether the Russian Grids Group complies with taxation laws and makes correct tax calculations and payments.
- The Ministry of Energy regulates and supervises activities of the Russian Grids Group in relation to energy conservation, energy efficiency enhancement, and the implementation of ordinances and instructions issued by the Government of the Russian Federation.
- The Ministry of Regional Development regulates and supervises activities of the Company's SDCs in relation to the construction and rehabilitation of electric grid facilities.
- The Bank of Russia regulates and supervises activities of the Company and SDCs in relation to compliance with Russian laws on joint-stock companies, the securities market, the protection of investors' rights and legitimate interests in the securities market, combating insider information misuse and market manipulation, and insolvency (bankruptcy) and in relation to compliance with Directive 2003/6/EC of the European Parliament and of the Council on insider dealing and market manipulation (market abuse) as incorporated into English law.
- The Federal Service for Environmental, Technological and Nuclear Supervision oversees activities of the Company and SDCs in relation to compliance with electrical safety requirements.

- The Accounts Chamber of the Russian Federation supervises the implementation by the Company and SDCs (as government-linked companies) of ordinances and instructions issued by the Government of the Russian Federation as related to their proper use of budgetary funds allocated for significant capital investment projects.

In order to minimize compliance risks and risks associated with insider information misuse, the Board of Directors approved the Anti-Corruption Policy of Russian Grids in the reporting period.

Risks Associated with the Company's Activities

Operational and technological risk

Operational and technological risks affecting power supply reliability are associated with the impact of the following factors:
- natural and anthropogenic emergencies;
- a substantial proportion of equipment with an expired standard operating life;
- failure to implement the required repair program;
- a less efficient management system of assets of Russian Grids SDCs;
- factors related to equipment operation, including nonfulfillment of regulatory and technical requirements, failure to conform to the permissible values of the process parameters of electric grid equipment's operation, mistakes made by operating personnel, and failure to comply with operational discipline.

If these risks materialize, this may have material economic and reputational consequences. In addition, these risk factors affect the volume of electricity network losses, increasing expenses incurred by SDCs in relation to the purchase of electricity to compensate for losses.

With the aim of minimizing the implications of operational and technological risks, the following measures were carried out in the reporting period, starting from the 3rd quarter of 2013:
- the special-purpose software system (Avariynost) for recording process failures (accidents) at electric grid facilities was implemented, making it possible, among other things, to verify process failure data;
- with due consideration to the functionality of the Avariynost software system, the Standard "Procedure for Investigating into and Recording Process Failures (Accidents) at Electric Grid Facilities" was developed;
- the Procedure for Conveying Operational Information on Process Failures, Operating Troubles of Electric Grid Elements, Operational Scheme Status Changes, and Accidents at Electric Grid Facilities of the United Power System of Russia was approved;
- work started on formulating the Concept of Developing the Operational Process and Situation Control System for Electric Grid Facilities of Russian Grids.

Investment (project) risk

The Company's SDCs take an active part in investment aiming to renew and expand grid infrastructure, which brings about certain risks.

The primary factors of the investment (project) risk are as follows:
- SDCs' investment programs make it necessary to mobilize both internal and borrowed considerable financial resources conforming to the RAB regulation parameters;
- construction in progress may grow due to excluding such construction-in-progress facilities from the capital investment program as not included in territorial planning documents (Resolution of the Government of the Russian Federation No. 159 of February 27, 2013, specifies that the facilities not included in territorial planning documents should be excluded from the investment program of the Company's SDCs).

In order to mitigate the investment risk, the Company and SDCs take the following measures:
- monitoring the implementation of SDCs' investment programs and their financing and analyzing the reasons behind any deviations of the actual results of investment program implementation from the plans;
- monitoring compliance with the Regulations for Investing Activities based on the Model Regulations for the Investing Activities of Subsidiaries and Dependent Companies;
- setting priorities in planning capital investment programs are set in accordance with regularly updated scenarios.

In the reporting period, the following measures were carried out to reduce investment risks:

- Pursuant to the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013, the Technique for Planning the Reduction of Investment Costs by 30 Percent Against 2012 in Formulating Investment Programs for Subsidiaries and Dependent Companies of Russian Grids was approved.
- As part of measures to reduce unit investment costs, Russian Grids issued Order No. 504 of August 16, 2013, "On the Annual Monitoring of Unit Construction Costs of Investment Projects as Part of the Benchmarking and Comparative Analysis of Unit Construction Cost Indicators of Subsidiaries and Dependent Companies of Subsidiaries/Subsidiary Subsidiaries and Dependent Companies of Russian Grids and Their Branches".

05

DEVELOPMENT OF CUSTOMER RELATIONS

5.1. Customer-oriented approach

Customer relations are a central focus of concern among the Company and its SDCs. The relations with this stakeholder have a direct influence on the financial performance of Russian Grids. With the involvement of the government, public organizations, and all stakeholders, the Company keeps working to balance its interests and the interests of its customers in securing the affordable and reliable electricity supply. Russian Grids's social responsibility in the area of customer relations entails understanding how important it is for the Company act as an infrastructure organization that supports a society and aspiring to play this role as effectively as possible with due regard to the customer's interests and expectations.

To enhance electricity supply reliability with the transition to world standards and assure service quality are the main priorities of the Company's development according to the Strategy for Development of the Electricity Distribution Grid Sector of the Russian Federation.

To provide a basis for the development of a customer-oriented approach and improve the quality of services provided by SDCs, Russian Grids defined the following guiding principles:
- affordable services;
- service quality compliant with Russian laws;
- customers' sufficient awareness of the company and services;
- territorial accessibility and convenient conditions of face-to-face customer service;
- accessibility and promptness of remote and online customer service;
- qualified customer service;
- transparent business processes of service performance and customer service.

With the aim of raising the affordability of the power infrastructure, Russian Grids was involved by the Agency for Strategic Initiatives in formulating the Road Map "Enhancing the Affordability of the Power Infrastructure" approved by Ordinance of the Government of the Russian Federation No. 1144-r of June 30, 2012 (hereinafter, the "Road Map"). The World Bank's Doing Business annual rankings are chosen as benchmarks to assess progress in implementing the initiative. The target of these efforts is to achieve the inclusion of Russia in the top 20 countries according to the rankings.

The targets in the "Getting Electricity" ranking of Doing Business[1]

Target	Unit	2012	2015	2018
Position in the "Getting Electricity" ranking of Doing Business:	–	183[2]	60	20
number of procedures	pcs.	10	6	5
Time	days	281	45	40
cost (% of GDP per capita)	percent	1,852	938	25

When implemented, the realization of the Road Map "Enhancing the Affordability of the Power Infrastructure" will make the network connection procedure easier, faster, more transparent, and less expensive.

The World Bank published the Doing Business 2014 report, ranking the Russian Federation 92nd in the "Ease of Doing Business" global ranking and 117th in the "Getting Electricity" ranking. Compared with Doing Business 2013, Russia climbed as high as 19 positions in the global ranking. The better position in the "Getting Electricity" ranking (71 up) was key to this achievement.

[1] The Doing Business rankings are prepared by the World Bank on an annual basis. The Doing Business Project looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. Doing Business records all procedures required for a business to obtain a permanent electricity connection and supply for a standardized warehouse located in the economy's largest business city. In relation to Russia, connection procedures in Moscow are measured, and the evaluated electricity distribution utility is a Russian Grids subsidiary, MOESK.
[2] Ranked 188th according to the updated 2012 data.

Targets in the "Getting Electricity" Ranking of Doing Busines

Target	2012[1]	Oct. 29, 2013	2015	2018
		2013		
Position in the "Getting Electricity" ranking	183	117	60	20
Number of procedures	10	5	6	5
Time (days)	281	162	45	40
Cost (% of income per capita)	1,852	293	938	25

In order to implement a customer-oriented approach, raise Russian Grids SDCs' customer loyalty and confidence, and standardize and harmonize customer service quality requirements across the regions in which the Russian Grids Group has operations, the Centralized Customer Service System Standard (hereinafter, the "Corporate Standard") was approved for SDCs in 2011. The Corporate Standard of Russian Grids formed the basis for the Uniform Customer Service Quality Standards developed for all grid organizations in accordance with paragraph 24 of the Road Map.

The Corporate Standard sets forth the requirements applicable to face-to-face and remote customer service and to network connection and electricity distribution services as associated with operational process control and with operation and repair work. Stricter requirements now apply to the time of processing customers' requests (applications, complaints, inquiries, etc.) and to the monitoring of carrying out accident remedy measures; the monitoring of customers' complaints and informational audits are systematized.

5.2. Tariff Policy

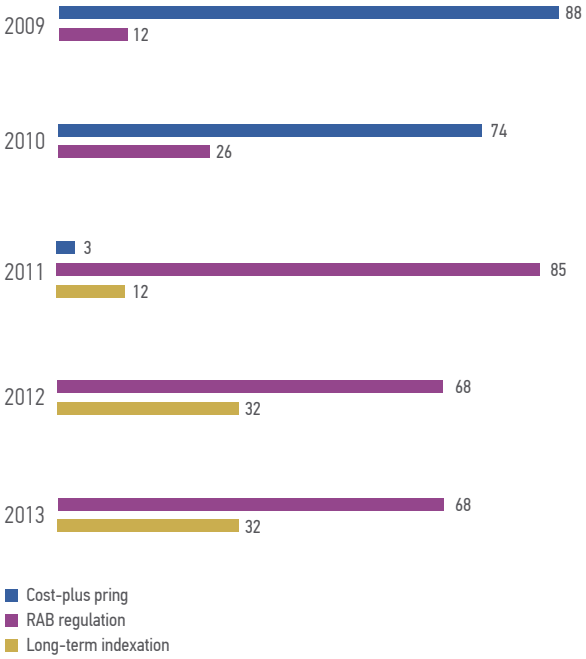
One of the most important components of the power infrastructure affordability is the prices of electricity distribution services. Tariffs of electricity distribution services related to the Unified National (All-Russian) Electric Grid (UNEG) and the electric grids of territorial grid organizations (TGOs) are part of the system of prices (tariffs) subject to government regulation.

Electricity distribution tariffs are calculated in accordance with the principles and methods defined by the Pricing Fundamentals in the Area of Regulated Prices (Tariffs) in the Electric Power Industry approved by Resolution of the Government of the Russian Federation No. 1178 of December 29, 2011.

Russian Grids SDCs are subject to long-term tariff regulation methods: return on invested capital method (RAB) and long-term minimum regulated revenue indexation method. The methods specify that electricity distribution tariffs are effective for at least five years (but not less than three years if set for the first time). An exception is the grid organizations that have never been subject to electricity distribution tariffs before. In the case of such organizations, they are allowed to use the economic cost method for the first year of regulation. In the reporting period, the majority of Russian Grids SDCs were regulated by the return on invested capital method (68%), while 32% of Russian Grids SDCs employed the long-term indexation method.

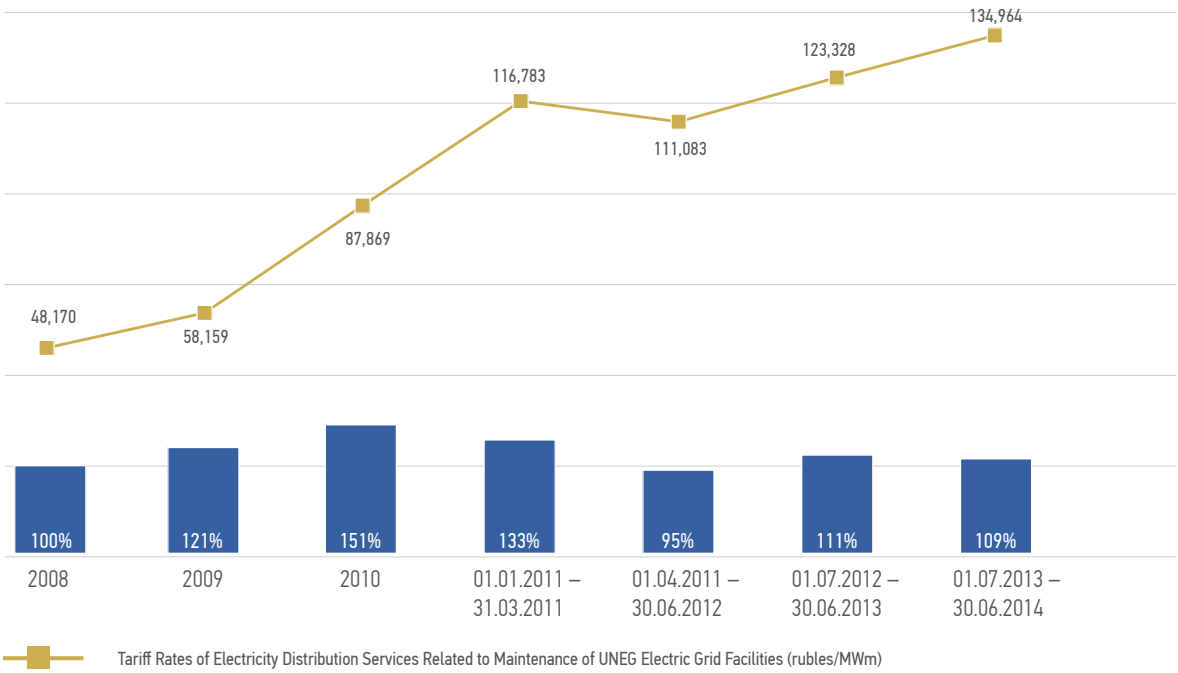
[1] Ranked 188th according to the updated 2012 data.

Evolution of the Implementation of Long-Term Tariff Regulation, %



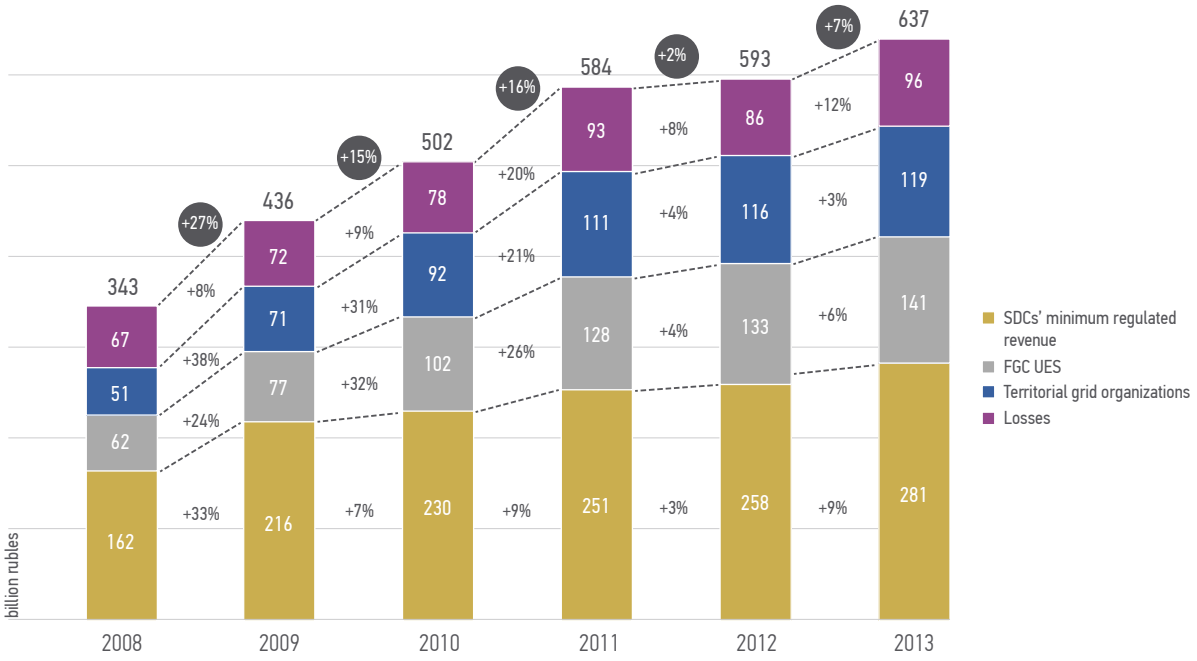
Tariffs of electricity distribution services are based on the calculation of minimum regulated revenue (MRR), which is the economically feasible amount of finances necessary for an organization to carry out regulated activities. The calculation base for tariffs of electricity distribution services is the volume of electricity delivery and the amount of capacity determined in accordance with the Rules of Nondiscriminatory Access to Electricity Transmission and Distribution Services and the Provision Thereof and the consolidated forecast balance.

Tariff Rates of Electricity Distribution Services Related to Maintenance of UNEG Electric Grid Facilities, rubles/MWm



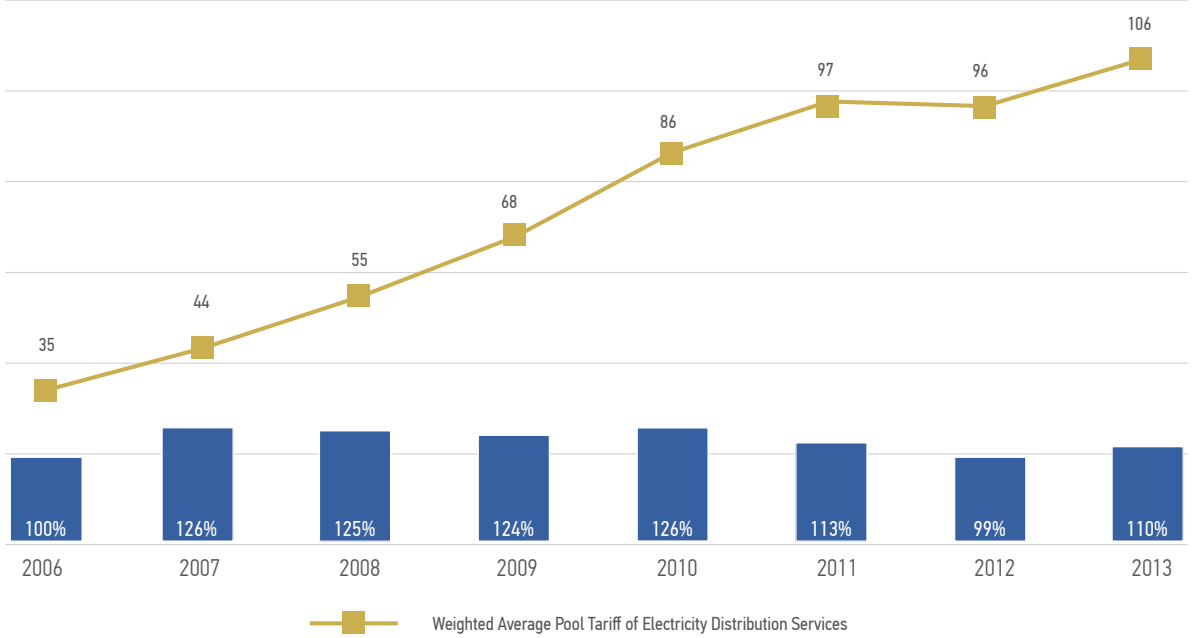
UNEG-related electricity distribution tariffs are set by the Russian Federal Tariff Service at the same level for all constituent entities of the Russian Federation except for the constituent entities that are, as resolved by the Russian Government, subject to tariff differentiation. UNEG-related electricity distribution tariffs are approved as the rate for maintenance of electric grid facilities (rubles/MW per month) and the rate for payment for electricity network losses (rubles/MWh). In 2013, the tariff rate for maintenance of electric grid facilities increased by 9% from 123,000 to 135,000 rubles/MW per month. The increase in the previous reporting period was 2 percentage points higher (11%).

Distribution of Costs in the Distribution Tariff



Tariffs of electricity distribution services related to electric grids owned by territorial grid organizations by virtue of ownership or otherwise by operation of law are set by executive authorities of constituent entities of the Russian Federation in charge of government regulation of tariffs, provided that all customers located in the same constituent entity of the Russian Federation and falling into the same customer category are subject to equal tariffs. To calculate the uniform (pool) tariffs in a constituent entity of the Russian Federation, the MRR of all of the region's grid organizations are added together. With the aim of ensuring that each grid organization receives MRR, regulators set the individual electricity distribution tariffs used for mutual settlements between a pair of grid organizations.

Weighted Average Pool Tariff of Electricity Distribution Services, kopecks per kWh



The weighted average pool tariff of electricity distribution services rose by 10% in 2013 to 106 kopecks per kWh. Russian Grids tariffs grow in line with the required level of reliability and the rates of development in the regions where the Company's SDCs have operations. Changes in electricity distribution tariffs in the reporting period matched the current rates of socioeconomic development in constituent entities of the Russian Federation and allowed Russian Grids SDCs to complete all measures specified in their capex programs and aimed at improving the reliability and efficiency of the power supply strictly in accordance with the strategic priorities of Russia's energy policy.

5.3. Electricity Distribution Services

5.3.1. Electricity Delivery

In 2013, electricity delivery from networks to customers and allied territorial grid organizations totaled 705,959.1 million kWh, or 0.2% less than in 2012. The decrease in electricity distribution is due primarily to lower industrial electricity consumption resulting from a reduction in industrial production and the implementation of energy conservation and energy efficiency enhancement programs.

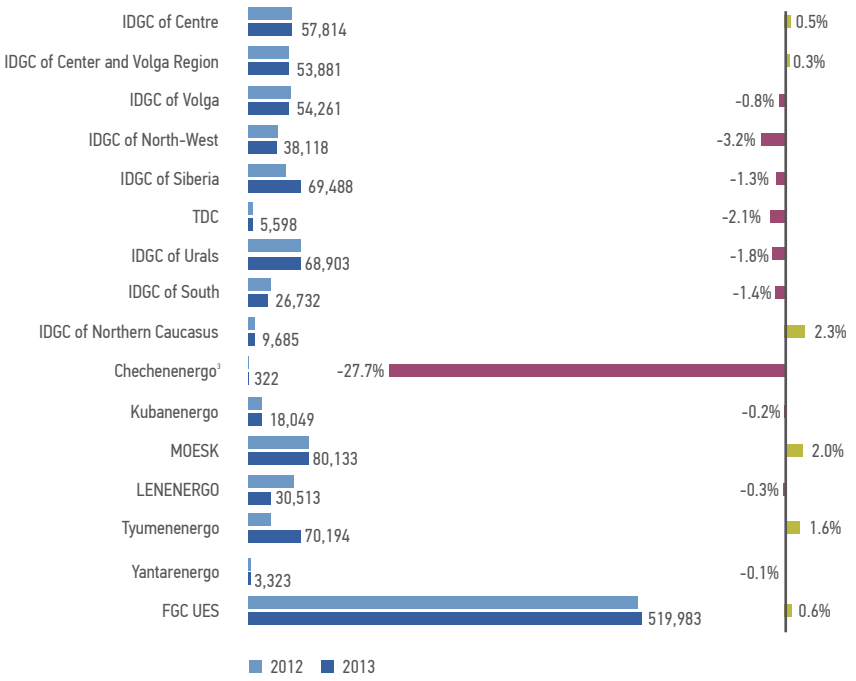
Operating Results of Russian Grids SDCs in 2013

Company Name	Delivery to Networks	Delivery from Networks to Customers and Allied TGOs	Electricity Losses	
		million kWh		%
IDGC of Centre	63,646.4	57,814.3	5,832.1	9.2
IDGC of Center and Volga Region	58,847.8	53,880.8	4,967.0	8.4
IDGC of Volga	57,989.1	54,260.7	3,728.4	6.4
IDGC of North-West	40,687.2	38,118.4	2,568.8	6.3
IDGC of Siberia	75,232.4	69,488.3	5,744.1	7.6
TDC	6,158.2	5,597.7	560.5	9.1

IDGC of Urals	74,589.3	68,903.0	5,686.3	7.6
IDGC of South	29,498.2	26,731.5	2,766.7	9.4
IDGC of Northern Caucasus	11,339.8	9,685.3	1,654.5	14.6
Chechenenergo[1]	694.0	321.9	372.1	53.6
Kubanenergo	20,841.9	18,049.0	2,792.9	13.4
MOESK	88,215.3	80,133.3	8,082.0	9.2
LENENERGO	33,944.6	30,513.1	3,431.5	10.1
Tyumenenergo	72,032.0	70,194.1	1,837.9	2.6
Yantarenergo	4,119.0	3,322.8	796.2	19.3
Total for SDCs/TGOs[2]	**637,835.2**	**587,014.2**	**50,821.0**	**8**
FGC UES[3]	542,244.5	519,983.1	22,261.4	4.3
Total[4]	**779,041.5**	**705,959.1**	**73,082.4**	**9.4**

[1] Chechenenergo started its operating activities on October 1, 2013; data are specified for the 4th quarter of 2013.
[2] Data on Russian Grids SDCs do not include the operating results of Russian Grids SDCs' subsidiaries and dependent companies engaged in electricity distribution.
[3] The calculation of FGC UES's electricity losses is based on electricity delivery from networks.
[4] The calculation of Russian Grids's result takes account of the electricity flow balance of 401,038.4 million kWh between electricity networks of FGC UES and electricity networks of SDCs/TGOs.

Changes[1] in Electricity Delivery by SDC[2] in 2012–2013



[1] Electricity losses in 2012 are calculated on a basis comparable with 2013, i.e. on the assumption that electricity delivery to customers in 2012 continued into 2013 (electricity delivered in 2012 to the customers that switched over to direct contracts with FGC UES, switched over to the use of electricity coming from their own generating facilities, or changed their external electricity supply by switching over to connection to electricity networks of FGC UES in 2013 totals 9,321.7 million kWh).
[2] Data on Russian Grids SDCs do not include the operating results of Russian Grids SDCs' subsidiaries and dependent companies engaged in electricity distribution.
[3] Chechenenergo started its operating activities on October 1, 2013; data are specified for the 4th quarter of 2013; data for 2012 are specified for NURENERGO, previously engaged in electricity distribution, for the comparable period of time.

5.3.2. Reducing Electricity Losses

Measures carried out by Russian Grids in 2013 in relation to energy conservation and energy efficiency enhancement were organized in accordance with the requirements set forth in the following documents:

- Federal Law No. 261-FZ of November 23, 2009, "On Energy Conservation and Energy Efficiency Enhancement and on Amendments to Certain Legislative Acts of the Russian Federation";
- Resolution of the Government of the Russian Federation No. 340 of May 15, 2010, "On the Procedure for Setting the Requirements Applicable to the Energy Conservation and Energy Efficiency Enhancement Programs of Organizations Engaged in Regulated Activities";
- Resolution of the Government of the Russian Federation No. 977 of December 1, 2009, "On Investment Programs of Electricity Industry Entities" (as amended by Resolutions of the Government of the Russian Federation No. 484 of June 30, 2010, and No. 1178 of December 29, 2011);
- Order of the Federal Tariff Service of the Russian Federation No. 401-e of August 25, 2010, "On Setting the Requirements Applicable to the Energy Conservation and Energy Efficiency Enhancement Program of FGC UES" (as amended and supplemented by Orders No. 97-e of March 31, 2011, No. 12-e of January 25, 2011, and No. 47-e of January 30, 2012);
- Resolutions approved by territorial executive authorities of constituent entities of the Russian Federation in charge of government regulation of tariffs in relation to organizations engaged in electricity distribution;
- Order of Russian Grids No. 561 of September 9, 2013, "On the Organization of Energy Conservation and Energy Efficiency Enhancement Measures of Russian Grids".

Russian Grids focuses its activities in the area of energy conservation and energy efficiency enhancement on:

- organization of activities carried out by Russian Grids SDCs, including subsidiaries and dependent companies of Russian Grids SDCs, in the area of energy conservation and energy efficiency enhancement;
- Russian Grids's participation in improving the regulatory and legal framework for energy conservation and energy efficiency enhancement;
- creation and improvement of conditions for developing and implementing innovative and optimal technical and technological solutions in the electricity transmission and distribution grid sectors;
- work on ensuring the implementation of the energy conservation and energy efficiency enhancement programs of Russian Grids SDCs, including subsidiaries and dependent companies of Russian Grids SDCs;
- development and implementation (enhancement) of the vertically integrated corporate energy management system in accordance with ISO 50001:2011 (GOST R ISO 50001:2012).

In 2013, the economic effect of electricity loss reduction measures was 2,861.8 million kWh (6,891 million rubles). The table below shows the results of the principal measures taken to reduce electricity losses in 2013.

Measures to Reduce Electricity Losses

Item	Programs/Measures	Effect, million kWh	Effect, million rubles
1	Target-oriented measures to reduce UNEG-related electricity process consumption (transmission grids)	98.7	108.9
2	Target-oriented measures (distribution grids), including:	1,643.1	4,356.2
2.1	Target-oriented measures to reduce electricity losses	1,643.1	4,356.2
2.1.1	- organizational measures	1,619.1	4,304.9
2.1.2	- technical measures	24	51.3
3	Ancillary programs (measures directly or indirectly impacting on targets and financed under other programs)	1,120	2,429.6

3.1	Development program for electricity metering systems	1,016	2,219.1
3.2	Technical upgrading and rehabilitation program	90.5	179.3
3.3	Repair program	8.8	18.4
3.4	R&D (innovation) implementation program	0.4	0.6
3.5	Long-term distribution grid development program	0.6	1.2
3.7	Other	2.8	7.2
	Total for SDCs/TGOs	2,763.1	6,782.1
	Total	2,861.8	6,891

The Russian Grids Group's actual electricity losses totaled 73,082.4 million kWh, or 9.38% of electricity delivered to networks. Compared with 2012, electricity losses decreased by 1,755.8 million kWh, or 0.19 percentage points down from 2012. Therefore, electricity losses in 2013 were 0.19% lower than in 2012. The reduction in electricity losses is largely due to carrying out the measures contained in long-term energy conservation and energy efficiency enhancement programs approved by the boards of directors of Russian Grids SDCs.

Actual Electricity Losses in 2012–2013

Company Name	2012 Actual			2013 Actual		Change	
	million kWh	%	%[3]	million kWh	%	million kWh	%[4]
IDGC of Centre	6,097.9	9.5	9.6	5,832.1	9.2	- 265.8	- 0.4
IDGC of Center and Volga Region	5,143.8	8.6	8.7	4,967.0	8.4	- 176.8	- 0.3
IDGC of Volga	3,903.6	6.4	6.7	3,728.4	6.4	- 175.2	- 0.2
IDGC of North-West	2,771.7	6.4	6.6	2,568.8	6.3	- 202.9	- 0.3
IDGC of Siberia	6,563.3	8.2	8.5	5,744.1	7.6	- 819.2	- 0.9
TDC	590.1	8.9	9.3	560.5	9.1	- 29.6	- 0.2
IDGC of Urals	5,984.4	7.9	7.9	5,686.3	7.6	- 298.1	- 0.2
IDGC of South	2,914.2	9.7	9.7	2,766.7	9.4	- 147.5	- 0.3
IDGC of Northern Caucasus	1,570.3	14.1	14.2	1,654.5	14.6	+ 84.2	+ 0.4
Chechenenergo[1]	195.9	30.6	30.6	372.1	53.6	+ 176.2	+23
Kubanenergo	2,674.8	12.9	12.9	2,792.9	13.4	+ 118.1	+ 0.5
MOESK	8,369.5	9.6	9.6	8,082.0	9.2	- 287.5	- 0.5
LENENERGO	3,578.4	10.4	10.5	3,431.5	10.1	- 146.9	- 0.4
Tyumenenergo	1,808.8	2.6	2.6	1,837.9	2.6	+ 29.1	0.0
Yantarenergo	726.1	17.9	17.9	796.2	19.3	+ 70.1	+ 1.4
Total for SDCs/TGOs[2]	52,892.8	8.1	8.3	50,821.0	8	- 2 071.8	- 0.3
FGC UES[3]	21,945.4	4.2	4.2	22,261.4	4.3	+ 316.0	+ 0.0
Total[4]	74,838.2	9.6	9.6	73,082.4	9.4	- 1,755.8	- 0.2

[1] Chechenenergo started its operating activities on October 1, 2013; data are specified for the 4th quarter of 2013; data for 2012 are specified for NURENERGO, previously engaged in electricity distribution, for the comparable period of time.
[2] Data on Russian Grids SDCs do not include the operating results of Russian Grids SDCs' subsidiaries and dependent companies engaged in electricity distribution.
[3] The calculation of FGC UES's electricity losses is based on electricity delivery from networks.
[4] Electricity losses in 2012 are calculated on a basis comparable with 2013, i.e. on the assumption that electricity delivery to customers in 2012 continued into 2013 (electricity delivered in 2012 to the customers that switched over to direct contracts with FGC UES, switched over to the use of electricity coming from their own generating facilities, or changed their external electricity supply by switching over to connection to electricity networks of FGC UES in 2013 totals 9,321.7 million kWh).
[5] The changes in relative electricity losses are on a comparable basis.

5.3.3. Improving the Management of Electric Grid Facilities

One of our principal goals related to organizing SDCs' operating activities is to advance and improve the system of operational process and situation control of electric grid facilities. To reach this goal, the Company works to organize and support the process of establishing SDCs' Network Control Centers (NCCs) and Situation Analysis (Operational Situation) Centers.

The primary objective of creating NCCs is to form in each grid company a responsibility center assigned the role of having operational process control of electricity networks, and organize the efficient interaction with external counterparties in the area of operational dispatching control and operational process control. Currently, all grid organizations of Russian Grids have NCCs performing nonoperating functions (64 NCCs of regional distribution grid companies and 48 NCCs of electricity transmission grid entities (branches of FGC UES)). These functions generally include:

- monitoring the operational situation at electric grid facilities;
- centralizing the planning work to time repairs of electric grid facilities;
- organizing the work with operational personnel.

Additionally, 57 NCCs of regional distribution grid companies and four NCCs of electricity transmission grid entities perform the following operating functions:

- controlling the process operation mode of electric grid facilities;
- dealing with accidents;
- making preparations for repair work.

Russian Grids and its SDCs set up Situation Analysis (Operational Situation) Centers to help companies' management with managerial decision making by forecasting, analyzing, and managing the operational situation at electric grid facilities. The primary objectives of the centers include:

- monitoring the situation at electric grid facilities and forecasting its change based on the analysis of incoming data;
- using information analysis systems to simulate the implications of managerial decisions;
- making an expert evaluation of decisions and optimizing them;
- carrying out management in a crisis situation.

The situation management functions in the electric grid sector come within the purview of the following divisions:

- situation Analysis Center of Russian Grids;
- department for Operational Process Control of FGC UES;
- Situation Analysis Center of LENENERGO;
- eight Operational Situation Centers of interregional distribution grid companies:
  - IDGC of Siberia, IDGC of Urals;
  - IDGC of Volga;
  - IDGC of Center and Volga Region;
  - IDGC of Centre;
  - IDGC of North-West;
  - IDGC of South;
  - IDGC of Northern Caucasus;
- five NCCs of directly controlled SDCs:
  - MOESK;
  - Tyumenenergo;
  - TDC;
  - Kubanenergo;
  - Yantarenergo.

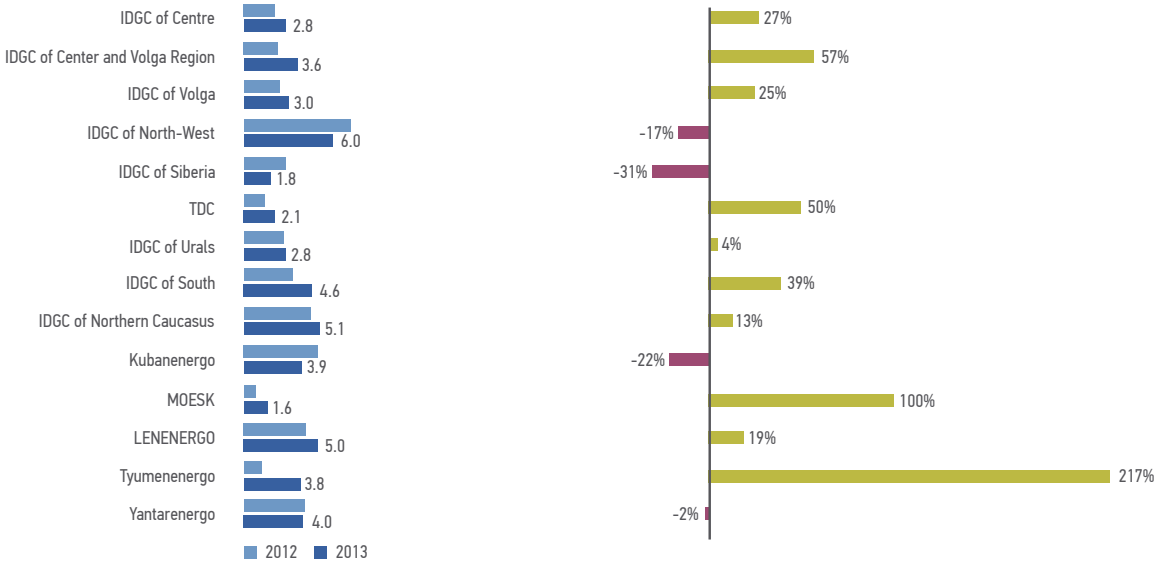
In addition, in order to improve the efficiency of monitoring the operational situation in the Sochi power district of the Kuban energy system during preparations for and the holding of the XXII Olympic Winter Games and the XI Paralympic Winter Games in Sochi in 2014, the structure of the Situation Analysis Center of Russian Grids was supplemented with the situation management office of the Sochi power district. It is also noteworthy that, to increase the reliability and operating efficiency of electric grid facilities in the Chechen energy system, work started on creating a unified operational situation center for the electric grid sector of the Chechen Republic. The center will operate on a twenty-four seven basis.

5.3.4. Reducing Accident Rates

Russian Grids developed and introduced into SDCs an up-to-date software system for recording process failures (accidents). The criterion for measuring how reliable electric grid companies' services are is the duration of power outages. In 2013, all Russian Grids SDCs achieved their planned targets in this area.

One of the principal parameters for calculating this indicator is the duration of process failures resulting in power outages. The longest duration of process failures in the reporting period was shown by IDGC of Siberia (6 hours), while the shortest duration was shown by MOESK (1.6 hours). Compared with 2012, there was a rise in the average duration of process failures of most SDCs except IDGC of North-West, IDGC of Siberia, and Kubanenergo.

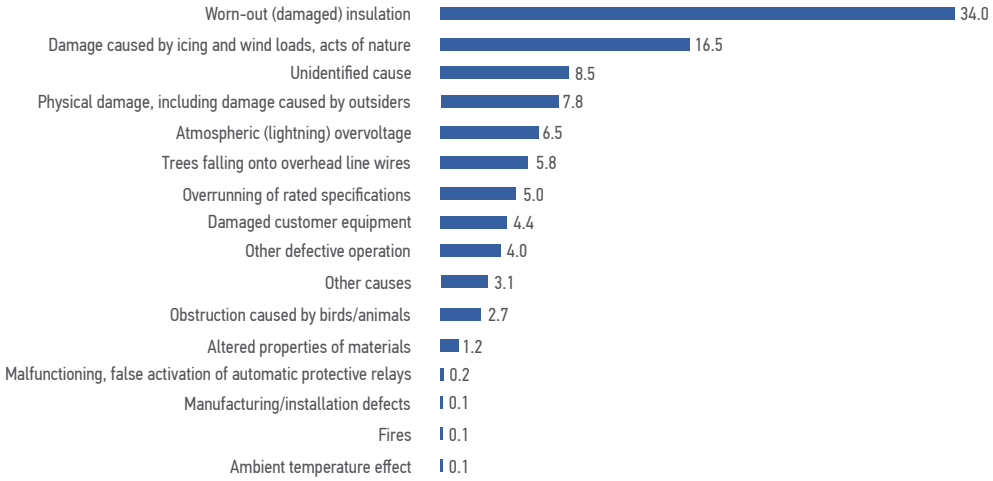
Average Duration of Process Failures at SDCs in 2012–2013, in Hours



The main causes of accidents in 2013 (as a percentage of the total number of accidents) were worn-out (damaged) insulation (34%) and damage caused by icing and wind loads (16.5%).

In order to reduce accident rates, SDCs continued in 2013 to carry out the multiyear program to widen narrow clearings. These efforts substantially decreased the accident rate associated with trees falling onto power lines. Such accidents accounted for 18% of the total number of accidents in 2011, as low as 15% in 2012, and only 5.8% in 2013.

Causes of Process Failures (Accidents) in 2013, %



5.4. Network Connection Services

Network connection is comprehensive services designed to make it technically feasible to supply electricity to customers. These services include the actual connection of power-receiving equipment of electricity consumers, power generation facilities, and electric grid facilities owned by grid organizations and other persons to networks of grid organizations.

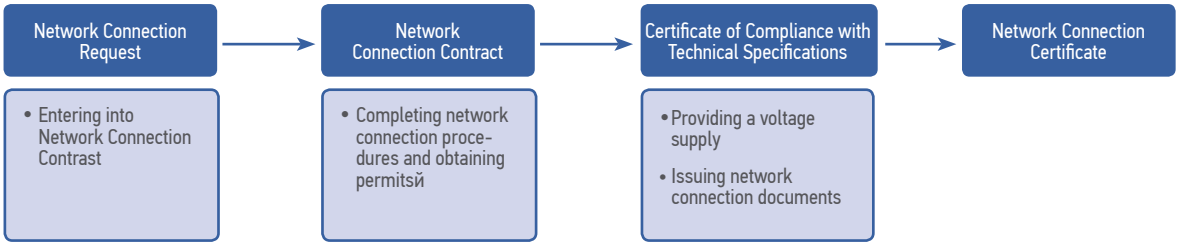
5.4.1. Network Connection Procedure

The fundamental documents that govern connection to electric grids of grid organizations are as follows:

- Federal Law No. 35-FZ of March 26, 2003, "On the Electric Power Industry";
- Resolution of the Government of the Russian Federation No. 861 of December 27, 2004, "On the Approval of the Rules of Nondiscriminatory Access to Electricity Transmission and Distribution Services and the Provision Thereof, the Rules of Nondiscriminatory Access to Operational Dispatching Control Services in the Electricity Industry and the Provision Thereof, the Rules of Nondiscriminatory Access to Services of the Trading System Administrator of the Wholesale Market and the Provision Thereof, and the Rules of Network Connection of Power-Receiving Equipment of Electricity Consumers, Power Generation Facilities, and Electric Grid Facilities Owned by Grid Organizations and Other Persons to Networks";
- Resolution of the Government of the Russian Federation No. 1178 of December 29, 2011, "On Pricing in the Area of Regulated Prices (Tariffs) in the Electric Power Industry";
- Resolution of the Government of the Russian Federation No. 24 of January 21, 2004, "On the Approval of the Standards of Disclosure by Wholesale and Retail Electricity Market Entities".

Compliance with laws and the provision by electric grid companies of network connection services are supervised by the Federal Antimonopoly Service of the Russian Federation.

Network Connection Procedure



At present, the network connection procedure is subject to strict requirements. The Federal Antimonopoly Service metes out penalties to grid organizations that fail to comply with legal requirements: fixed fines (Article 9.21 of the Code of Administrative Offences of the Russian Federation) or turnover-based fines (Article 14.31 of the Code of Administrative Offences of the Russian Federation). The Federal Antimonopoly Service takes measures to economically stimulate the improved reliability and quality of services provided by grid companies by making annual adjustments to minimum regulated revenue in calculating electricity distribution tariffs.

5.4.2. Improving the Regulatory and Legal Framework for Network Connection

Improving the regulatory and legal framework for network connection is part of measures specified in the Road Map "Enhancing the Affordability of the Power Infrastructure". The legal regulations adopted in 2013 to implement the Action Plan of the Road Map are as follows:

- Resolution of the Government of the Russian Federation No. 630 of July 26, 2013:
  - introducing uniform customer service standards into grid organizations;
  - developing a capacity information record and disclosure system.
- Resolution of the Government of the Russian Federation No. 640 of July 29, 2013:
  - abolishing the mandatory approval of internal and external electricity supply projects for customers' facilities rated 150 kW or below.
- Resolution of the Government of the Russian Federation No. 691 of August 12, 2013:
  - defining the procedure for interaction between allied grid organizations if it is necessary to create technical conditions for network connection.
- Resolution of the Government of the Russian Federation No. 737 of August 26, 2013:
  - bringing network connection deadlines forward if it is not necessary for a grid organization to build any network infrastructure (if it is technically viable), in the case of customers with connected capacity in the range of 15 to 670 kW, to 120 days and, in the case of customers with connected capacity of over 670 kW, to 1 year;
  - developing mechanisms for accelerated temporary connection, including by using independent power supply systems, with grid organizations to be obligated to inform customers of the possibility of such temporary connection.
- Resolution of the Government of the Russian Federation No. 758 of August 31, 2013:
  - amending the standards of disclosure by wholesale and retail electricity market entities with respect to the obligation of all territorial grid organizations to disclose the relevant information.
- Resolution of the Government of the Russian Federation No. 915 of October 12, 2013:
  - laying down the network connection rules for certain customer categories in relation to jointly owned real property items and defining the terms of the multiple exercise by one individual (corporate entity) of the right to network connection on preferential terms for customers' facilities rated 15 kW or below.
- Resolution of the Government of the Russian Federation No. 967 of October 28, 2013:
  - improving the procedure for redistributing the maximum capacity.
- Resolution of the Government of the Russian Federation No. 1047 of November 21, 2013:
  - establishing the disconnection procedure for expired temporary network connections.
- Resolution of the Government of the Russian Federation No. 1131 of December 9, 2013:
  - introducing the receipt of network connection requests for customers' facilities rated 150 kW or below and 10 kV or below over the Internet with the progress of processing such requests to be tracked on a real-time basis;
  - obligating grid organizations to disclose information concerning the main stages of receiving and processing customers' requests (receiving requests, issuing technical specifications, entering into contracts, connecting facilities without disclosing the contents of such requests).

5.4.3. General Network Connection Results

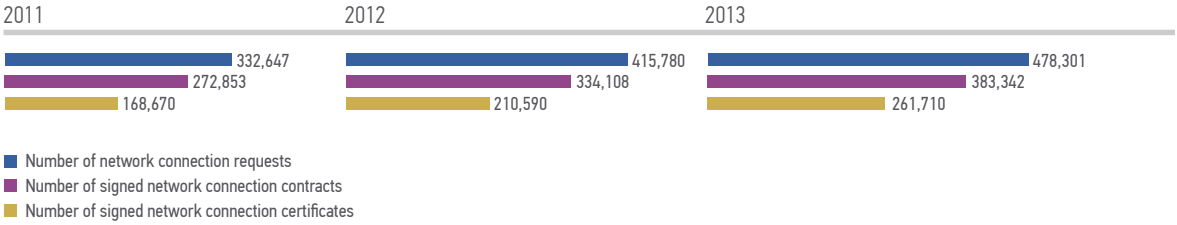
In 2013, Russian Grids SDCs received 478,301 network connection requests for power-receiving equipment of individual customers and power generation facilities for total capacity of 54,634 MW. The number of network connection requests submitted for the 12 months of 2013 increased by 15% on the 12 months of 2012, while requested capacity for 2013 was 10% up on the previous reporting period.

In 2013, Russian Grids SDCs entered into 383,342 network connection contracts for power-receiving equipment of individual customers and power generation facilities for total capacity of 30,622 MW. The number of network connection contracts entered into in 2013 increased by 15% with an increase of 50% in capacity.

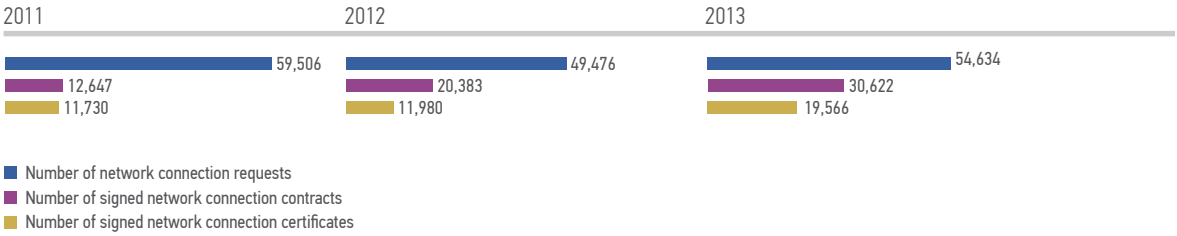
The actual number of signed network connection certificates was 261,710 for total capacity of 19,566 MW. The number of network connection contracts completed in the 12 months of 2013 went up by 24% on the previous year. Capacity (MW) grew by 63%.

General Network Connection Results

General Network Connection Results, pcs.



General Network Connection Results, MW



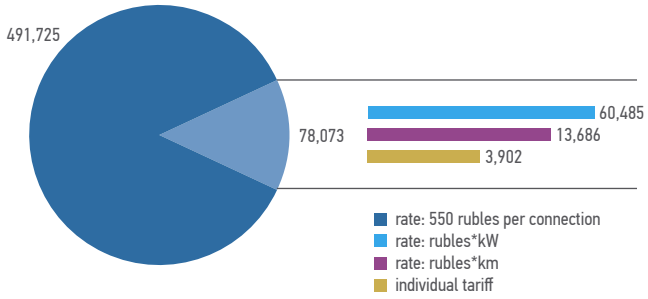
Russian Grids SDCs in 2013 completed work on network connection for several large power generation facilities constructed under Ordinance of the Government of the Russian Federation No. 1334-r of August 11, 2010, "On the Approval of the List of Generation Facilities Used for the Supply of Capacity Under Capacity Supply Contracts":

- LENENERGO
  - 450-MW CCGT, Pravoberezhnaya CHPP-5, TGK-1;
- IDGC of South
  - 235-MW CCGT, SGC TGK-8;
- Kubanenergo
  - 180-MW CCGT, Dzhubga TPP, OGK-3;
- IDGC of Siberia
  - 90-MW CCGT, Omsk CHPP-3, TGK-11;
- IDGC of Volga
  - 3x80-MW GTU, Novokuibyshevsk CHPP-1, Volga TGK;
- IDGC of Urals
  - 420-MW CCGT, Serov TPP, OGK-2;
- IDGC of Urals
  - 165-MW GTU, Perm CHPP-9, TGK-9.

5.4.4. Network Connection Fee

As provided for in the applicable laws, any person intending to obtain a network connection may independently select the type of network connection fee rate. The fee rate is selected by the applicant at the stage of entering into a network connection contract.

Contracts by Type of Network Connection Fee Pricing



Payment under network connection contracts is made on a one-shot basis, and it can be agreed that payment is made for separate network connection operations.

The following legal regulations apply to government regulation of network connection fees charged by electric utilities:

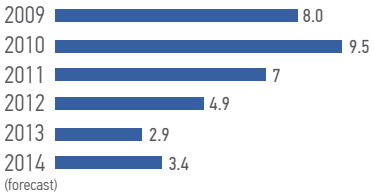
- Federal Law No. 35-FZ of March 26, 2003, "On the Electric Power Industry".
- Resolution of the Government of the Russian Federation No. 1178 of December 29, 2011, "On Pricing in the Area of Regulated Prices (Tariffs) in the Electric Power Industry".
- Guidelines approved by Order of the Federal Tariff Service of the Russian Federation No. 209-e/1 of September 11, 2012.

The Federal Tariff Service sets fees for connection to the Unified National (All-Russian) Electric Grid:

- individually for a specific applicant approaching the Federal Tariff Service if it is necessary to build electric grid facilities;
- as a formula if the measures included in the S1 standardized tariff rate (cost of organizational measures that are not related to building electric grid facilities) are carried out.

After their coming into effect, amendments to the fourth subparagraph of paragraph 2 of Article 23.2 of Federal Law No. 35-FZ of March 26, 2003, "On the Electric Power Industry" led to a 70% decrease in the average network connection fee rate in 2013 compared with the highest rate in 2010.

Average Fee for Connection to Distribution Grids*



* The average network connection fee rate (rubles per kW) is calculated by dividing revenues from network connection services for the period by connected capacity for the same period.

The lower average network connection fee enabled Russia to go up in the Doing Business ranking and make network connection services more affordable for a wide range of customers. The Company intends to continue its efforts in this area to shorten the time of network connection and improve the quality of operations conducted by SDCs' divisions responsible for these services.

5.5. Customer Service

Russian Grids SDCs' customer service consists of three channels: face-to-face service (customer service centers), remote service (telephone and mail), and online service (Internet).

5.5.1. Face-to-Face Customer Service

To optimally locate customer service offices in the areas serviced by Russian Grids SDCs, the Corporate Standard specifies such parameters as population figures, population density figures, and demand for face-to-face customer service among local households. Additionally, the opening of customer service offices gives consideration to image-related components: locality status, availability of SDCs' locally based executive arms or branches' locally based managerial arms.

In its serviced areas, Russian Grids opened 19 customer service offices in 2013, including two high-standard customer service centers in Kaliningrad and Moscow. Therefore, with the aim of ensuring the accessibility and convenient conditions of face-to-face customer service, Russian Grids operates 734 customer service offices, including 63 Category 1 customer service centers, the others being Category 2 and 3 customer service centers in the areas where SDCs' production units and regional networks operate.

Improving customer service quality is one of Russian Grids's strategic targets, and the Company gives much attention to enhancing network connection affordability and creating convenient conditions for visitors to customer service centers by developing comprehensive services and introducing new processes. For this purpose, customer service centers are upgraded and fitted with modern equipment such as electronic queue management systems, payment terminals, and self-service information kiosks.

Visitors to customer service centers can submit requests for services, including network connection requests, obtain reference information and consultations related to network connection and electricity distribution, make a claim (complaint) to SDCs, and become familiar with information about other local electric utilities. Highly qualified professionals of customer service centers explain necessary procedures, help complete necessary forms, and provide supporting information for applicants.

As at the end of 2013, employees of customer service centers received about 1.5 million face-to-face inquiries, or 24% more than in the previous year. The constantly growing number of visitors to customer service centers is largely due to the improved territorial accessibility and quality of face-to-face customer service.

In addition, as the supplier of last resort functions were transferred to Russian Grids subsidiaries in 11 Russian regions in 2013, face-to-face customer service was organized at 79 subscriber offices providing local residents with energy retail information such as payment for consumed electricity, the opening of personal accounts, comparative checks of electricity meter readings, etc. This made it possible to receive new customers as quickly and conveniently as possible and offer them a high-quality level of services.

5.5.2. Remote Customer Service

Telephone

Remote customer service over the telephone primarily uses call center hotlines and numbers of the operational dispatching units (electric grid districts/production units) of SDCs. The principal goals of a call center is to receive and handle customers' incoming calls about all issues related to SDCs' activities and provide a customer with necessary information. In order to mitigate the consequences of process failures and promptly provide households with information on electricity supply issues and the duration of accident recovery work, particularly in the heat deficit period, SDCs created hotlines to deal with such inquiries.

The Company set hotline requirements for SDCs as related to the accessibility of hotline numbers, working hours, the promptness of providing information for households about power outages, and the registration of customers' incoming calls. Campaigns are regularly conducted to inform customers and executive authorities and local governments of constituent entities of the Russian Federation in the areas serviced by SDCs about the functioning of SDCs' call centers and hotlines dealing with electricity supply issues.

Internet

Corporate websites of SDCs and their branches are well equipped for online customer service. The main tools of online customer service are online inquiry forms and personal login pages.

In 2013, Russian Grids launched the Uniform Network Connection Portal at портал-тп.рф. The Russian Grids corporate website contains a link in the "Customers" section to the Uniform Network Connection Portal. The two-tier architecture of портал-тп.рф provides uniform access to network connection content and makes it possible to go to Russian Grids SDCs' websites.

The ПОРТАЛ-ТП.рф website contains the following sections:
- Road Map Implementation:
  - information about changes in laws and about key events.
- Feedback:
  - contact information of all Russian Grids SDCs;
  - online inquiry forms for comments or complaints.
- Personal Login Page:
  - network connection requests with tracking the progress of processing such requests;
  - capacity redistribution requests.
- Get Connected:
  - information about the network connection procedure;
  - standard forms of documents.
- Network Connection Price Calculator:
  - calculation of network connection prices for all Russian regions serviced by Russian Grids SDCs.
- Network Connection in Figures:
  - analytical information about regional energy systems.
  - disclosure of information about Russian Grids SDCs' operations.

In order to ensure that, starting from March 10, 2014, grid organizations' obligations are fulfilled in relation to accepting network connection requests over the Internet and disclosing information about the main stages of network connection, Russian Grids SDCs did extensive work in 2013 on the modernization and expansion of the functionality of personal login pages.

As part of implementing the instructions issued by Russian President Vladimir Putin after the plenary session of the 2013 St. Petersburg International Economic Forum regarding the formation of the councils of customers of infrastructure monopoly entities to necessitate taking account of customers' opinions in the course of pursuing the Strategy for Development of the Electric Grid Sector of the Russian Federation, Russian Grids and its SDCs formed the Councils of Customers. The composition of the Councils of Customers gives consideration to balancing the interests of different customer groups in the regions where the Company and SDCs operate.

The Councils of Customers focus their activities on the following areas:
- applying a customer-oriented approach to Russian Grids SDCs' operations and raising customer confidence;
- increasing Russian Grids's transparency and social responsibility;
- facilitating the long-term development of regional electricity sectors and carrying out activities associated with connection to Russian Grids SDCs' networks;
- improving the efficiency of customer relations in the course of grid organizations' performing the supplier of last resort functions.

The Company will continue in 2014 to pursue the Strategy for Development of the Electric Grid Sector, which applies to, among other things, securing the reliable and high-quality electricity supply for customers and improving customer service quality, in order to contribute to the further economic growth and wellbeing of the country.

06 ECONOMIC IMPACT

6.1. IFRS Key Financial Indicators of the Russian Grids Group

Changes in financial performance were substantially impacted by restrictions on tariff growth rates and by the supplier of last resort functions taken on and performed by Russian Grids SDCs in 12 Russian regions in 2013.

Electricity distribution services accounted for the largest share in the Russian Grids Group's revenue, representing 77% of the Company's total revenue in 2013. Compared with the previous reporting period, this source of the Company's revenue decreased by 8 percentage points, while the share of electricity sales increased from 6% to 17%.

Russian Grids Group Revenue

Indicators	2013, million rubles	2012, million rubles	Change	
			million rubles	%
Electricity distribution (transportation)	584,629	554,066	30,563	6
Electricity sales	127,063	42,057	85,006	202
Network connection	37,005	45,531	(8,526)	(19)
Other	11,082	10,529	553	5
Total	**759,779**	**652,183**	**107,596**	**16**

Revenue from electricity distribution services was 6% up on 2012. Total revenue rose by 16%, largely because of a growth in electricity sales.

Russian Grids Group Operating Expenses

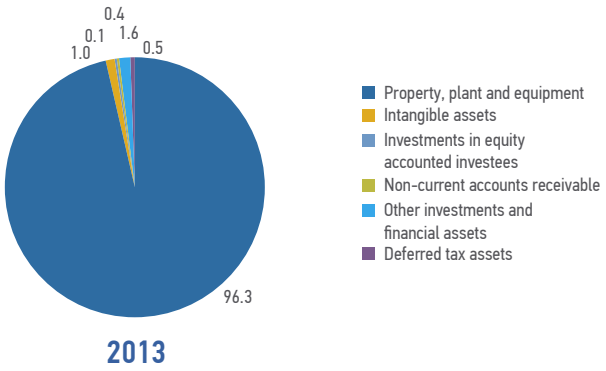
Indicators	2013, million rubles	2012, million rubles	Change	
			million rubles	%
Provision for impairment of property, plant and equipment	239,446	4,706	234,740	–
Personnel costs	148,268	132,010	16,258	12
Depreciation and amortization and impairment	115,942	97,795	18,147	19
Electricity distribution	124,197	105,222	18,975	18
Compensation for losses	92,795	87,620	5,175	6
Purchased electricity for resale	68,616	22,741	45,875	202
Allowance for impairment of trade and other receivables	15,986	6,369	9,617	151
Other	109,245	108,007	1,238	6
Total	**914,495**	**564,470**	**350,025**	**62**

In 2013, electricity distribution expenses increased by 18% on the previous reporting period. Depreciation and amortization and impairment grew by 19% from 97.8 billion rubles to 115.9 billion rubles. Personnel costs went up by 12% in 2013. Total operating expenses rose by 62%, primarily due to provisioning for impairment of property, plant and equipment and because of higher expenses associated with purchased electricity for resale.

As a result, adjusted net profit for the year (less losses on impairment of property, plant and equipment, available-for-sale financial investments, promissory notes, impairment of receivables, advances given, and related deferred income tax expense) is 74 billion rubles.

The book value of the Russian Grids Group's assets at December 31, 2013, stood at 1,946 billion rubles, or 2% lower than the Company's asset value in 2012. Non-current assets decreased by 4% to 1,657 billion rubles in 2013. Changes in non-current assets consisted in the lower value of fixed assets due to the recognition of impairment of property, plant and equipment and because the value of other investments and financial assets was affected by a decline in prices of listed shares in JSC "Inter RAO".

Russian Grids Group Non-Current Assets as at December 31, 2013, %

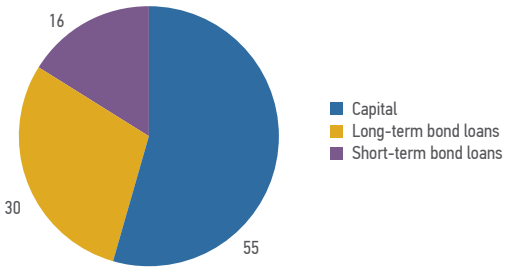


2013

Structural changes in the Company's equity were primarily due to the acquisition of FGC UES by the Russian Grids Group in 2013. The share of equity in total liabilities in the period under review decreased by 5 percentage points, resulting from retained earnings decreased by 51%.

Non-current liabilities in the reporting period rose by 16%, largely because of the issue of new long-term bond loans. The 12% rise in current liabilities was substantially due to increased trade and other payables.

Russian Grids Group non-current liabilities as at December 31, 2013, %



6.2. Policy, Practical Approaches to Spending on Locally-Based Suppliers, and Proportion of Such Spending at Significant Locations of Operation

6.2.1. Policy and Practical Approaches to Spending

Russian Grids procurement procedures are in accordance with the Civil Code of the Russian Federation, Federal Law No. 135-FZ "On Competition Protection", Federal Law No. 223-FZ "On Purchases of Goods, Work, and Services by Certain Types of Corporate Entities", and the Procurement Regulations (Minutes of the Meeting of the Board of Directors No. 72 of December 29, 2011). As provided for in the applicable laws, the Company's Procurement Regulations are published on Russia's official website at www.zakupki.gov.ru and on the Company's corporate website at www.rosseti.ru.

In addition to the Procurement Regulations, Russian Grids's goals and objectives in procurement are defined by:
- Strategy for Development of the Electric Grid Sector of the Russian Federation;
- Procurement Procedure of Russian Grids;
- Policy on Society, Customer, and Government Relations of Russian Grids;
- Program of Partnership Between Russian Grids and Small and Medium-Sized Businesses.

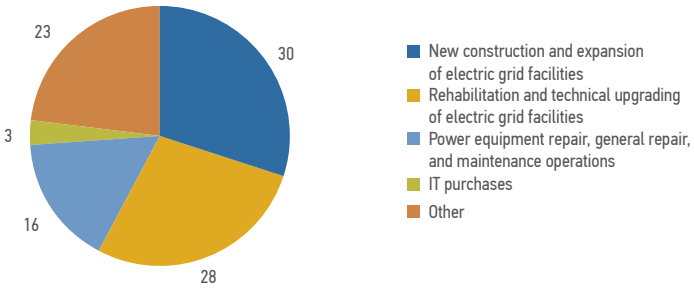
As specified in the above-mentioned documents, the principal goal of the Company's procurement is to fully provide its activities with goods, work, services, and other objects of civil rights with the necessary indicators of their quality and with the optimum indicators of their price. To achieve this goal, the Company should reach the following objectives:

1) ensuring proper and effective spending on procurement;
2) forming the market of qualified suppliers, contractors, and service providers capable of meeting the Company's needs in the best way around the Company, which involves:
   - encouraging the participation of small and medium-sized businesses in projects implemented by Russian Grids and its SDCs;
   - entering into long-term agreements with immediate producers of electrical equipment to ensure that costs of equipment and materials are cut by eliminating the chain of intermediaries;
3) preventing erroneous or unfair acts in procurement;
4) building a positive image of the Company as a bona fide purchaser of goods, work, services, and other objects of civil rights.

6.2.1. Procurement Results in the Reporting Period

Overall, Russian Grids and its SDCs completed 49,800 procurement procedures worth 454.9 billion rubles, inclusive of VAT, in 2013. Compared with the previous reporting period, the number of procurement procedures grew by 32.8% while the procurement value increased 2.1-fold.

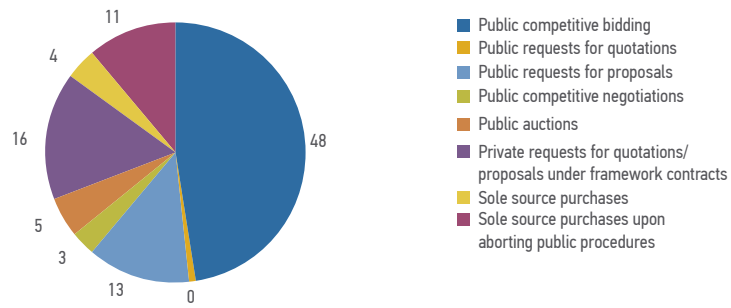
Expenditure Breakdown by Activity Type in 2013, %



The expenditure breakdown by activity type was dominated by new construction and expansion of electric grid facilities (30%) while rehabilitation and technical upgrading of electric grid facilities accounted for approximately the same percentage (28%). The share of repair and maintenance operations was almost half the above-mentioned proportions (16%).

In terms of purchasing methods, public procedures accounted for the largest share of procurement procedures, including public competitive bidding (48%), requests for proposals (13%), auctions (5%), and competitive negotiations (3%). Sole source purchases accounted for 4% while the proportion of sole source purchases upon aborting public procedures was 11%.

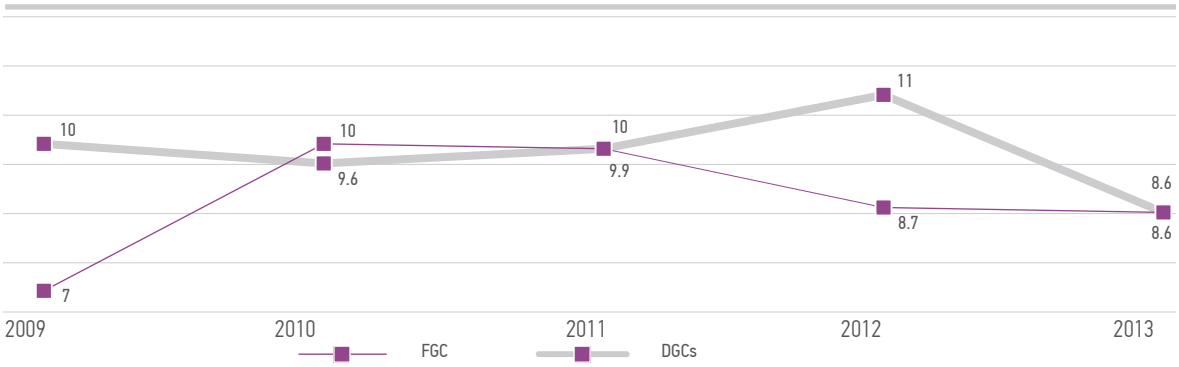
Regulated Procurement Procedure Breakdown by Purchasing Method in 2013, %



Ensuring proper and effective spending

As part of carrying out Instructions of the President of the Russian Federation No. P/p-846 of April 8, 2011, and ensuing Instructions of First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-5809 of August 15, 2011, regarding the implementation of a system of economic performance indicators as necessitated by an at least 10% annual reduction of per-unit purchase costs related to goods (work, services) within three years in real terms in 2010 prices, the Board of Directors of the Company approved the relevant methods for calculating the cost reduction indicator and prescribed KPIs for senior managers of the Company and its SDCs. These methods enabled the Company and its SDCs to gain an additional economic effect from procurement in the amount of 15.5 billion rubles, inclusive of VAT, or 10.2% of the planned purchase price.

Changes in the Economic Effect from Competitive Procedures, %



Forming the market of qualified suppliers, contractors, and service providers around the Company

Russian Grids procurement focuses on stimulating the economic development of local communities; the Company and its SDCs strive to involve in procurement procedures local (regional) manufacturers, contractors, and small and medium-sized businesses, whose development is of particular significance to sustained socioeconomic development in the regions of the Company's operations.

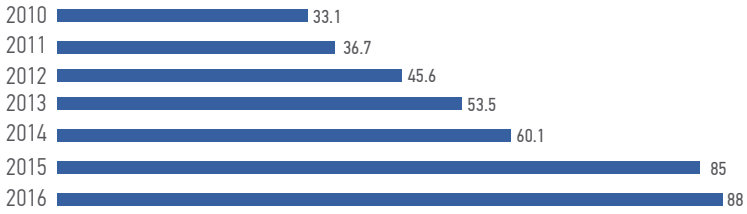
In 2013, Russian Grids became a member of the Working Group of the Agency for Strategic Initiatives on the formulation and implementation of the Road Map "Expanding Access of Small and Medium-Sized Businesses to Purchases of Infrastructural Monopolies and Government-Linked Companies" (approved by Ordinance of the Government of the Russian Federation No. 867-r of May 29, 2013). As a member of the Working Group, the Company takes an active part in preparing regulatory documents issued by federal executive authorities pursuant to the Road Map (guidelines, resolutions, ordinances, etc.).

The Company continues to enter into long-term (three-year) contracts and framework agreements with the manufacturers of primary electrical equipment, focusing its efforts on increasing the share of electrical products purchased from domestic manufacturers. Russian Grids formulated the Support and Stimulation Program for Development of Domestic Equipment Manufacturers, aiming primarily to:

- reduce dependence on imported products;
- implement innovative energy-efficient technologies;
- develop and modernize domestic industrial production;
- develop the production and scientific potential;
- ensure the required level of the country's energy and industrial security;
- raise the technological level of production;
- create new jobs in the regions where the Company and its SDCs operate.

The implementation of this policy resulted in a consistent growth in the share of domestically made electrical equipment purchased by Russian Grids: from 45.6% in 2012 to 53.6% in 2013.

Changes in the Share of Domestically Made Electrical Equipment Purchased by Russian Grids, %

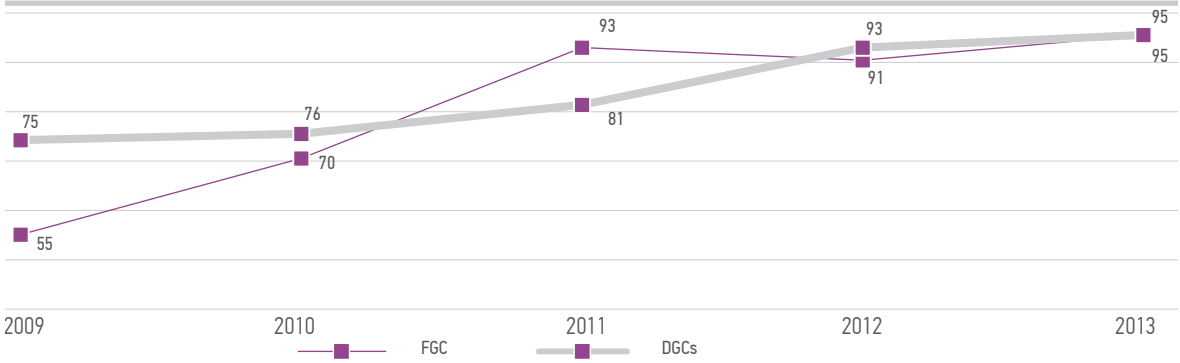


Currently, the Company has four long-term supply contracts and 94 cooperation agreements, including agreements with 73 domestic equipment manufacturers whose total number of employees is about 168,000.

Preventing erroneous or unfair acts in procurement

The main instruments for preventing erroneous or unfair acts in Russian Grids procurement are an increased share of public competitive purchases, the wider use of modern information technology, and the introduction of the inform rules for procurement procedures.

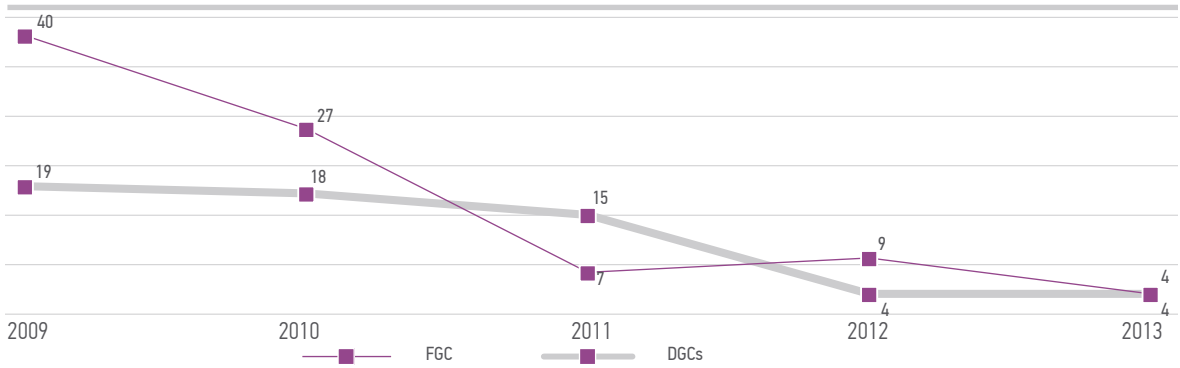
Changes in the Share of Public Procurement Procedures, %



In the reporting period, the share of purchases made on the electronic trading floor grew from 93% in 2012 to 98% in 2013.

Simultaneously, the Company works to decrease the proportion of sole source purchases. In the reporting period, this indicator went down from 4.3% to 4.0% of the actual volume of purchases.

Changes in the Share of Public Procurement Procedures, %



The introduction the uniform standards and rules for procurement procedures into Russian Grids and its SDCs as an objective is specified in the Policy on Society, Customer, and Government Relations of Russian Grids. There are plans to switch over to centralized procurement at the Company's level with the joint function to be

transferred to a separate division of the Company. With the aim of exerting closer control of the organization of SDCs' procurement procedures, it is planned to create a single information space by setting up a unified electronic trading floor and integrating SDCs' information systems responsible for procurement automation into the relevant information systems of Russian Grids.

In addition, systematic work started in 2013 on introducing the uniform rules for procurement procedures into all electric grid companies of the Russian Grids Group, and a mechanism was formalized for centralized purchases made directly by Russian Grids in relation to primary electrical equipment required by the Company's subsidiaries.

Building a positive image

In building up its procurement system, Russian Grids adheres to the principles of transparency, equal opportunities, fairness, and nondiscrimination with respect to procurement participants, which contributes to building a positive image of the Company.

Information on all planned and current procurement procedures is mandatorily posted on the official website of the Russian Federation for information on contracting, on the Company's website, and on the electronic trading floor.

The measures taken by the Company and its SDCs to enhance the transparency of procurement in 2013 were recognized by the expert community and the industry's professionals:

- in the National Procurement Transparency Rating of Contracting Public Entities, the Company received the highest award, "Guaranteed Transparency"; this rating is supported by the Federal Antimonopoly Service, the Ministry of Economic Development, the Accounts Chamber, and experts of Expert RA;
- in the professional contest "Leader in Competitive Procurement", Russian Grids was recognized as "Company of the Year in Competitive Procurement" and was awarded in the category "Procurement Transparency".

Results of the Company in Achieving the Procurement Goals in 2013

Indicator	2012	2013
Economic effect from procurement	8.7%	8.6%
Number of one-year direct contracts with manufacturers of electrical products	162	
Number of three-year direct contracts with manufacturers of electrical products	10	
Proportion of spending on locally-based suppliers at significant locations of operation	100%	100%
Share of purchases made publicly	93%	95%
Share of purchases made on the electronic trading floor	93%	98%
Share of sole source purchases	4.3%	4%

6.3. Innovative Development of Russian Grids

Due to the establishment of Russian Grids in 2013 to consolidate distribution and transmission assets in Russia, unified approaches were developed to innovation in the united Company:

1. The Regulations for the Uniform Technical Policy in the Electric Grids of Russian Grids were developed and approved.
2. The Innovative Development, Energy Conservation, and Energy Efficiency Enhancement Policy was formulated and will soon be approved by the Board of Directors of the Company.
3. The Scientific and Technical Council of Russian Grids (STC) was established for the coordination of innovation, technical, and operational policies and for the coordination of efforts to develop and organize the implementation of new equipment and technology into projects for new construction, rehabilitation, and technical upgrading aimed at improving the reliability and operating efficiency of electric grid facilities of Russian Grids and reducing related operating costs. The STC is composed of leading Russian scientists and educationalists, together with representatives of the Russian Academy of Sciences and the country's leading higher education institutions and research establishments.

Russian Grids continued successfully to carry out the Innovative Development Programs for distribution and transmission grids.

The programs cover the period until 2020 and aim to:

- reduce the overall physical deterioration of grids to 50% by 2020, provided that financing will be sufficient;
- raise operating efficiency by 2020 to the efficiency level of distribution grid companies of developed countries;
- create the reserve of transmission capacity of electric grids to be three years ahead of the development of the economy;
- ensure that ROI in the distribution grid sector will be at a level comparable with that of Russian companies exposed to similar risks;
- encourage investment in the large-scale rehabilitation of capital assets, which will result in improving the reliability and quality of services and increasing the operating efficiency of grid companies;
- start to apply innovative technologies that meet the highest international standards in electric power distribution at all stages of the production process.

In the reporting year, substantial results and significant practical effects were achieved in all of these areas.

The financing of the programs in 2013 was 26,616 million rubles for distribution companies and 12,166 million rubles for transmission companies. Among the main achievements in information technology and telecommunications is the introduction of centralized automated accident record, process control, receivables management, procurement, and other systems.

An important part of the Innovative Development Program is the R&D Program.

Under the R&D Program in 2013, Russian Grids organized the performance of 142 research and development assignments (90 under contracts with distribution companies and 52 under contracts with transmission companies). 85 assignments were completed in 2013 (57 under contracts with distribution companies and 28 under contracts with transmission companies).

In implementing the R&D Program, Russian Grids cooperates with over 100 leading domestic scientific and technical organizations, including the industry's research establishments, the Russian Academy of Sciences, and the country's leading federal state unitary enterprises and higher education institutions.

07

RELATIONS WITH SOCIETY

7.1. Relations with Labor Unions

Russian Grids gives particular attention to the regulation of social and labor relations within its subsidiaries and dependent companies, viewing their personnel as a key resource that has a direct effect on securing a reliable and uninterrupted power supply in the regions of their operations.

The Company regularly interacts with the All-Russia Trade Association of Employers in the Power Industry (RaEl Association) and the All-Russian Electrounion (AREU), which are parties to the social partnership at industry-wide level.

Each of the Company's SDCs (except for FGC UES) has elective bodies of primary labor union organizations composed of employees' representatives who are directly involved in the preparation and agreement of local regulatory documents that affect the interests of the workforce.

The collective bargaining agreements at regional social partnership level set forth the employer's obligations with respect to the minimum monthly wage rate for a first-category worker, components of pay systems, and additional benefits, guarantees, and compensation, as well as the obligations of primary labor union organizations. The terms and conditions of SDCs' collective bargaining agreements are independently examined by the RaEl Association for compliance with the obligations contained in the Sectoral Wage Rate Agreement (SWRA).

As part of fulfilling their obligations, labor unions collaborate with employers in arranging and holding sports and cultural events, organizing recreational activities, and providing remedial treatment for employees and their family members and work with the electric grid sector's veteran organizations.

SDCs pay special attention to cooperation with labor unions in organizing activities in the area of occupational safety. Employees' authorized representatives participate in conducting seminars on occupational safety, certifying workplaces for working conditions, and accepting electric grid facilities for operation in accordance with regulatory documents.

In 2013, Russian Grids SDCs fulfilled all of the obligations contained in the SWRA and collective bargaining agreements.

In March 2013, the RaEl Association and the AREU signed the SWRA in the Electric Power Industry of the Russian Federation for 2013–2015.


РОССЕТИ
АЛЛЕЯ ЭНЕРГЕТИКОВ


РОССЕТИ


РОССЕТИ

7.2. Charity and Sponsorship

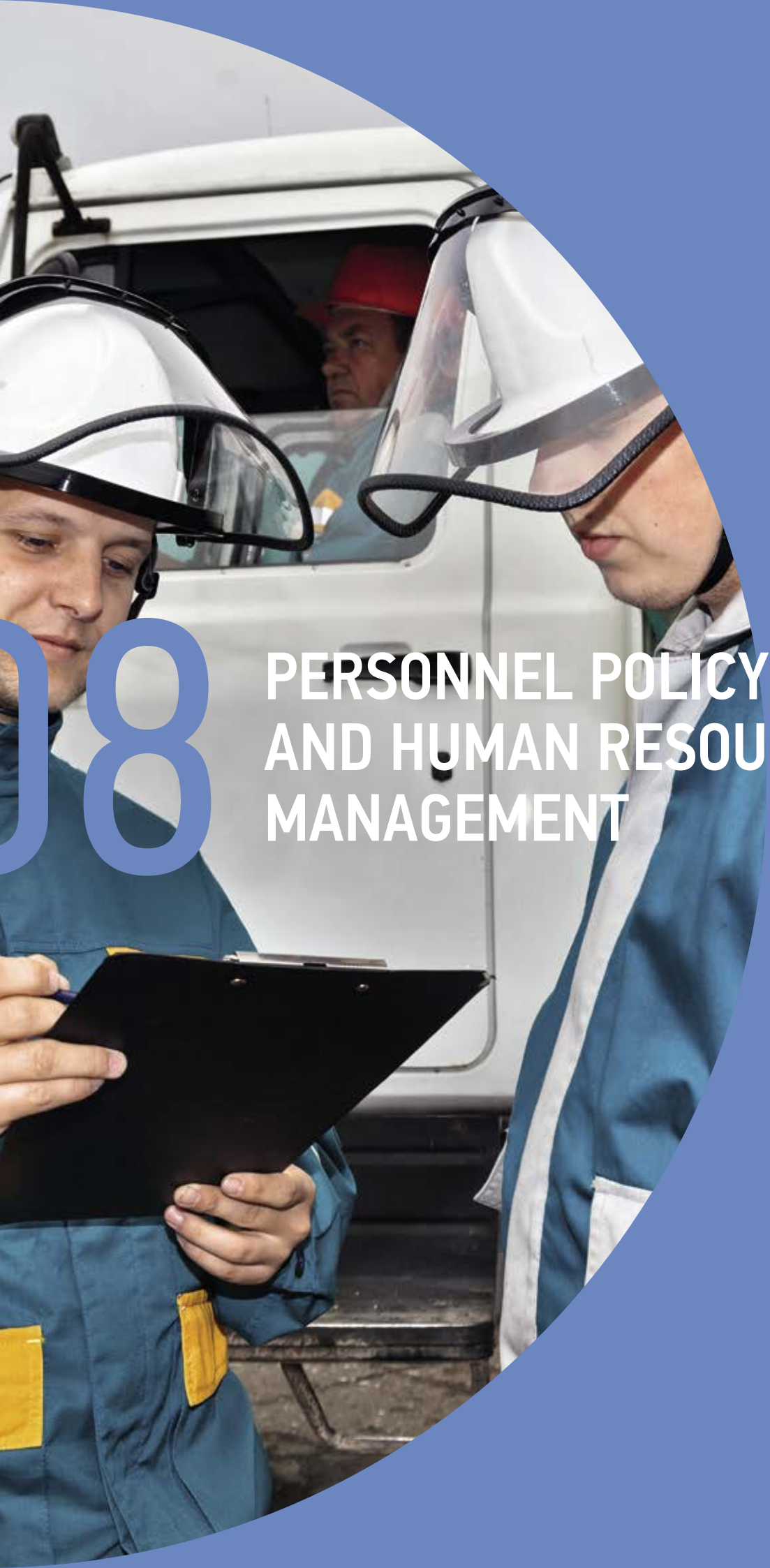
7.2.1. Charity and Sponsorship Projects

Russian Grids regards charity and sponsorship as a key area of its social policy, which ensures the shaping of a favorable social environment for the purpose of contributing to the sustained development of the regions where the Company operates.

Russian Grids took part in supporting Russia's culture and spiritual heritage in 2013 by giving a charitable endowment to the Society of Friends of Peterhof. In 2013, the Company also provided support for the Valery Gergiev Foundation. Additionally, Russian Grids entities regularly give charitable aid to children's homes in the regions of their operations, including to centers for children with disabilities.

A key component of Russian Grids's social policy is to support physical culture and sports in Russian regions. A new level of the Company's social responsibility is cooperation with PFC CSKA Moscow. Starting from the 2013/14 soccer season, Russian Grids is the club's general partner. Support for PFC CSKA extends beyond the traditional scope of sponsorship agreements. The Company views this long-term cooperation as the opportunity to make a substantial contribution to the development of national sports. As part of this partnership, the parties jointly implement measures to develop the domestic school of soccer, including by modernizing the infrastructure of associated sports schools and training centers in the provinces.

In 2013, also with support from Russian Grids, the project to build a new sport and recreation center was completed in Kaspiysk, Republic of Dagestan. A sports establishment was set up on the base of Kuramagomed Kuramagomedov Freestyle Wrestling School.



08 PERSONNEL POLICY AND HUMAN RESOURCE MANAGEMENT

8.1. Principles of Personnel Policy

The main instruments of personnel policy aimed at maintaining and developing the personnel potential at electricity distribution grid companies and building up an attractive image for Russian Grids are as follows:

- improving the motivation system and developing the social partnership system at electric grid companies;
- carrying out the uniform youth policy aiming to recruit and retain young employees and building up cooperation with Russia's leading higher education and secondary professional education institutions;
- working on personnel training and development and developing the system of professional training, training, and retraining in the direction toward the wide use of capabilities of regional training centers;
- implementing comprehensive measures to establish personnel reserves;
- psychophysiological support for the work of distribution grid companies' personnel.

In order to mitigate the personnel risks associated with the demographic situation, disparities in the education system, and the particularities of the industry's operation affected by government regulation, increasingly great attention is given to planning workforce requirements: ensuring the availability of reliable information on current and forecasted workforce requirements in quantitative and qualitative terms, promptly filling workforce requirements by recruiting personnel with necessary qualifications, and creating the conditions for workforce productivity growth.

8.2. Number of Employees

The staff on the payroll of Russian Grids SDCs engaged in the grid business was 221,600 people in 2013, or 32,900 more than in 2012. The workforce grew due to the acquisition of FGC UES by the Russian Grids Group and to the hiring of energy retail personnel after some Russian Grids SDCs took on the supplier of last resort functions in 2013. The staff on the payroll of Russian Grids was 398 people.

Staff on the Payroll of Russian Grids SDCs

	Staff on the Payroll, people	Average Number of Personnel with Secondary Employment, people	Average Number of Personnel Employed Under Civil Contracts, people
IDGC of Centre	31,091	49	178
FGC UES	25,123	21	175
IDGC of Center and Volga Region	23,503	58	282
IDGC of Siberia	22,218	31	16
IDGC of Volga	22,010	23	992
IDGC of North-West	15,240	39	182
MOESK	15,159	7	10
IDGC of Urals	14,751	30	1,828
IDGC of South	13,676	26	34
IDGC of Northern Caucasus	13,329	23	88
Kubanenergo	8,168	10	856
Tyumenenergo	7,699	26	3
LENENERGO	6,181	18	19
Yantarenergo	1,897	17	45
TDC	1,590	6	106
Total for SDCs engaged in core activities	221,635	384	4,814

Measures implemented by Russian Grids and its SDCs to maintain their personnel potential enable them to keep their staffing level at not lower than 97% of the required number of employees for several years and keep their average personnel turnover (the ratio between voluntary resignations and the staff on the payroll) at not higher than 6%, which characterizes the Company as an attractive and socially responsible employer.

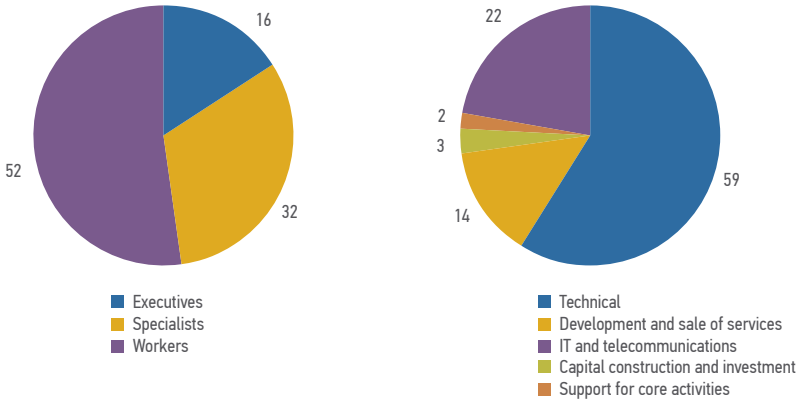
To retain and recruit personnel, the Company and its SDCs carry out measures, including:
- social benefits and guarantees;
- insurance coverage;
- non-state pension coverage programs;
- assistance in improving housing conditions for certain employee categories;
- personnel development projects.

8.3. Qualitative Characteristics of Personnel

Personnel by Occupational Category and Function

The supplier of last resort status granted to some of the Company's SDCs brought about certain changes in the proportions of employees belonging in different categories. However, workers continued to account for the largest part of the workforce, namely 52% (54% in 2012), which is due to the specific features of electricity transmission and distribution processes. Technical employees represented about 60%.

Personnel by Occupational Category and Function, %



Given the particularities of their activities related to the maintenance and operation of electric grid facilities, the Company's SDCs mainly recruit local residents. A rare exception is remote regions with a shortage of labor where rotational team methods are used for the operation of electric grid facilities.

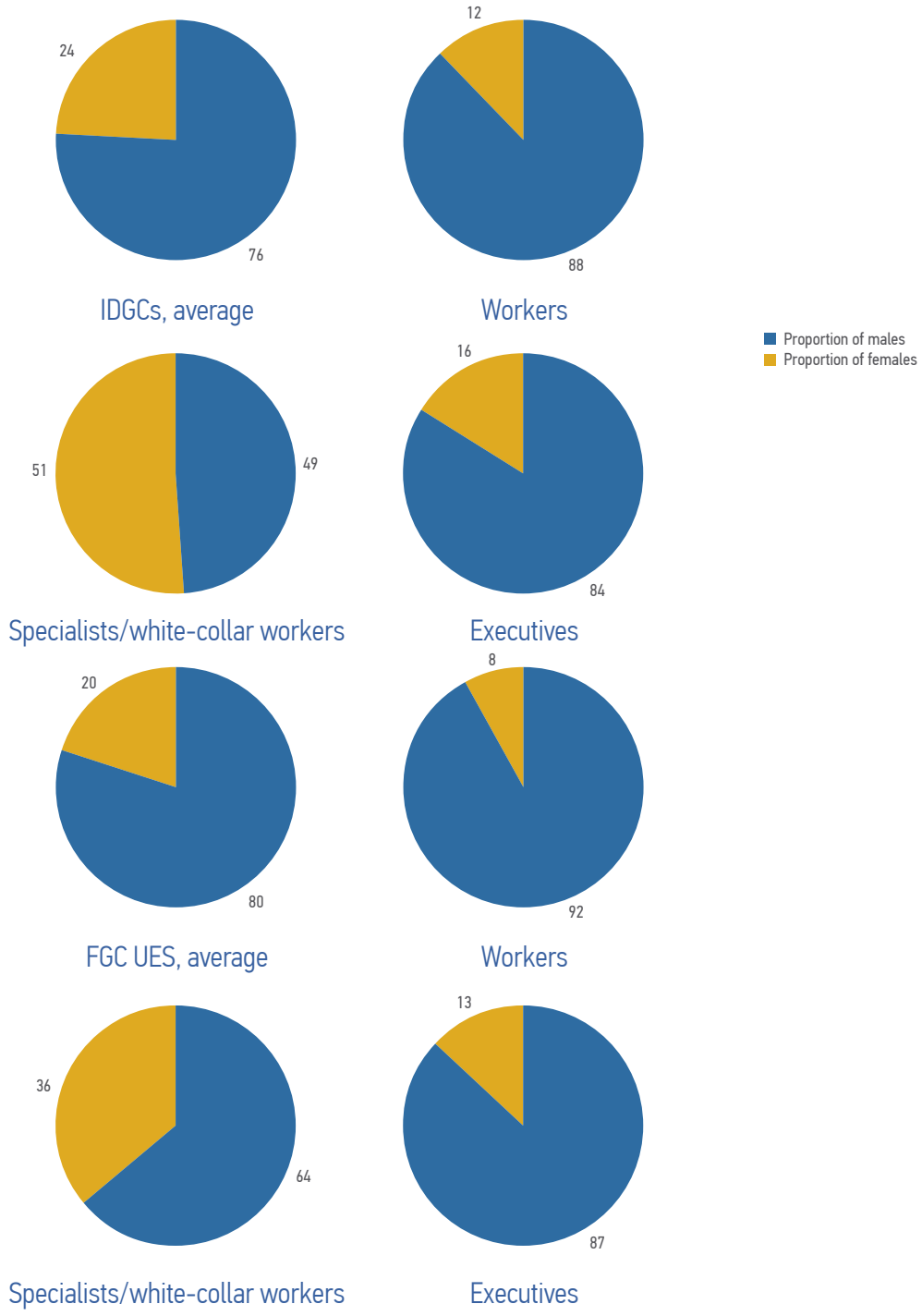
To fill the workforce requirements of the Sochi power district during the construction and commissioning of electricity supply facilities for the 2014 Winter Olympics, about 1,000 employees of Russian Grids subsidiaries were temporarily transferred to this assignment in the reporting year.

The Company plans to promote its personnel mobility programs as an instrument for resolving personnel problems in regions with a shortage of labor while carrying out federal program projects and as an element of its motivation policy.

Personnel by Gender

The specific features of electricity transmission and distribution and the particularities of operations related to the maintenance of electric grid infrastructure also determine the gender characteristics of the Company's personnel.

Personnel by Gender by Occupational Category, %

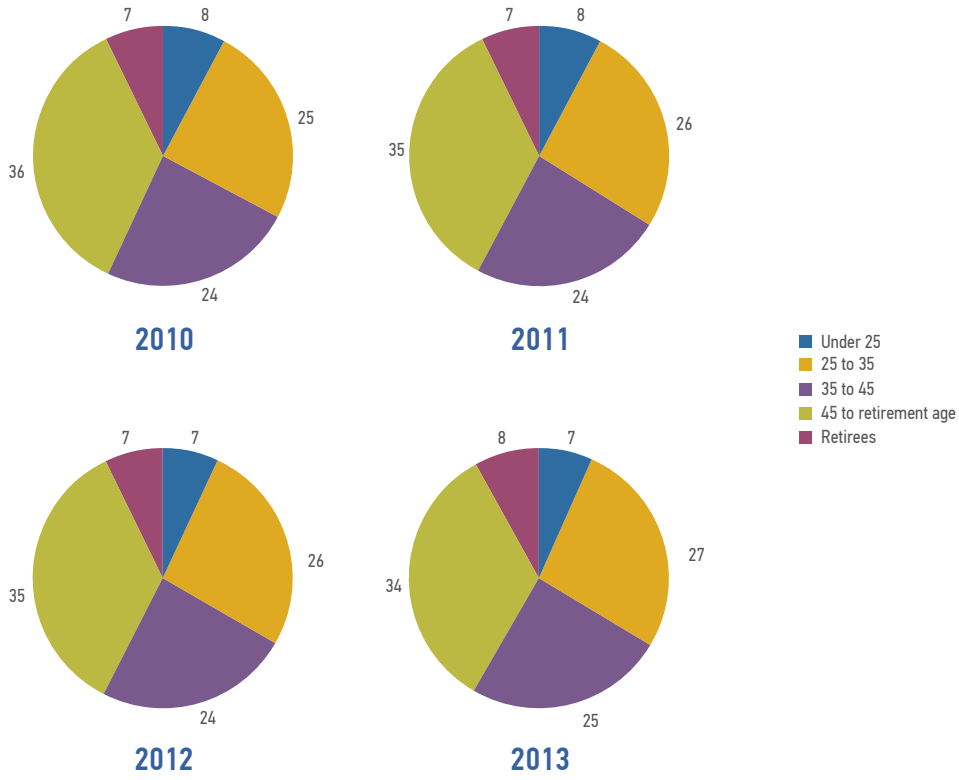


Personnel by Age

As a common European trend, combined with the Russia-specific gender imbalance of age with a higher elderly female ratio, population ageing imposes additional constraints on the electric grid sector because the majority of employees in the sector are males. With the aim of mitigating the adverse trends, particular attention is given to projects to retain personnel and attract young people to work in the industry.

Programs to form and develop the personnel reserve and target-oriented motivation programs make it possible to maintain the age profile of the Company's personnel.

Changes in Personnel by Age in 2010–2013, %



The workforce of the most active working age – 45 years old and below – accounts for 59%.

To find the optimum equilibrium among terminating the employment of retirement-age personnel, retaining highly qualified employees, and hiring young people is a major component of replenishing and maintaining the distribution grid sector's personnel reserve.

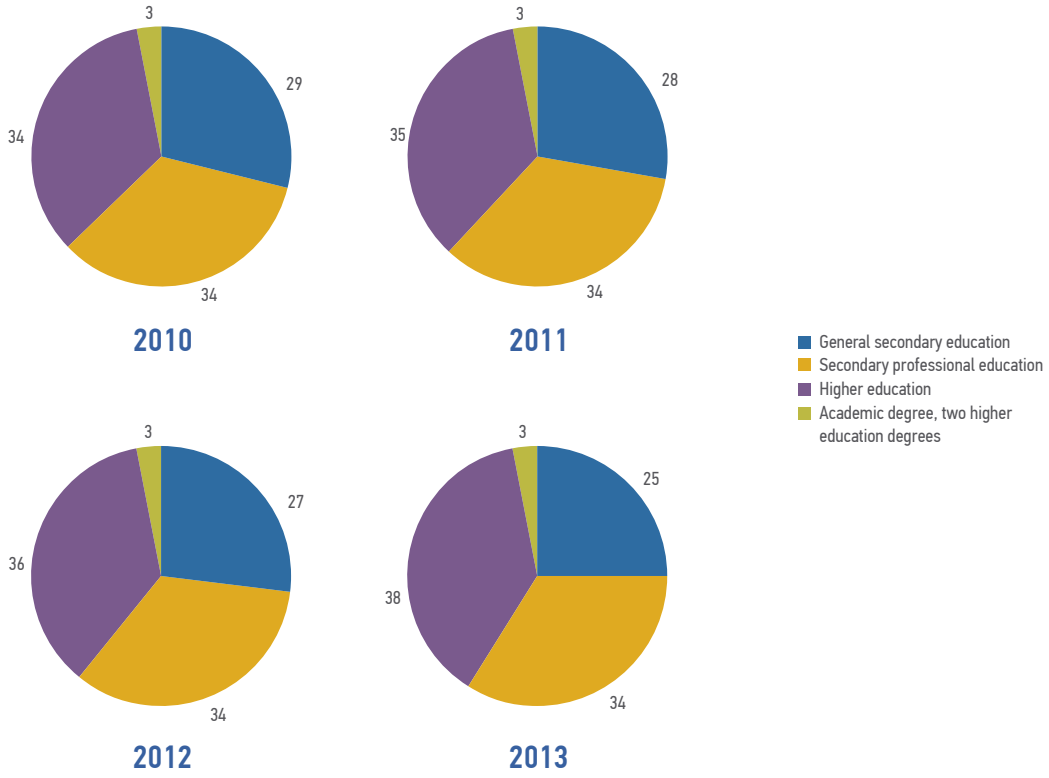
As to retirement-age personnel, measures are taken to ensure equilibrium between retaining highly qualified employees who, as mentors and in-house teachers, can share their experience with young people and terminating the employment of retirees who work at power facilities and in hazardous conditions. Knowledge and experience of older employees are in demand in organizing adaptation measures for newly hired employees, in providing on-site training, and in organizing practical training at the training centers of the Company's SDCs.

Guarantees contained in collective bargaining agreements and non-state pension coverage programs apply to resigned retirement-age personnel.

Personnel by Educational Level

In recent years, the educational level of personnel has improved, with a growing share of employees having higher education and a simultaneously decreasing share of employees without professional education (by 3 percentage points over the past 3 years). At the end of 2013, the share of personnel with higher education was 41% of the total number of employees (38% in 2011).

Changes in Personnel by Educational Level in 2010–2013, %



The focus on recruiting higher qualified personnel in electric grid companies improved the educational characteristics of employees. Development programs for staff members of the Group's companies are considered to be of the same importance.

8.4. Personnel Training and Development Programs

In order to maintain and develop qualifications, meet the industry's personnel development requirements, ensure the outstripping improvement of competencies for using new equipment and techniques, and establish the personnel reserve, the Company's SDCs work to provide continuous professional education, training, retraining, and advanced training for personnel.

8.4.1. Training Events

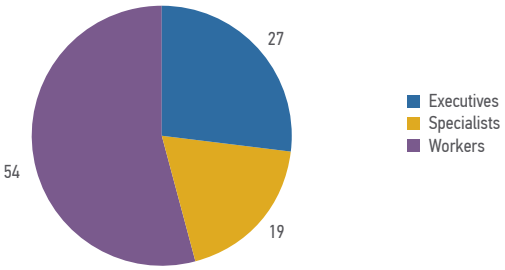
About 111,000 employees took part in training events at all levels in 2013, accounting for over 50% of the staff on the payroll.

In line with the demand for companies' personnel training, Russian Grids selects the most effective, advanced, and high-quality training methods allowing the Company to keep up the scope and quality of its training projects in spite of cost optimization measures, such as:

- distance learning;
- cascade training;
- reduced time of off-the-job training owing to self-training modules;
- corporate workshops;
- training in nonworking hours.

Special attention is given to training for personnel responsible for securing the operating reliability of electric grid and substation equipment. Training is in accordance with the Personnel Development Rules for Electricity Industry Entities of the Russian Federation and the requirements set by the Federal Service for Environmental, Technological and Nuclear Supervision of the Russian Federation. Given the particularities of companies' activities, workers constitute the majority of personnel that completed training programs.

Trained Employees by Category, %



The principal supplier of training services as related to the organization of training for technical personnel is the corporate network of regional training centers made up of 20 licensed nonprofit educational organizations having laboratory facilities and electric-grid training grounds, 10 personnel training centers of FGC UES, and training centers of the Company's SDCs.

For the purpose of thoroughly analyzing the activities of training centers and subsequently formulating the uniform personnel training concept that would ensure the harmonization of training programs and requirements applicable to equipment for lecture rooms, laboratories, and training grounds, work started in 2013 on the certification of in-house training establishments.

In order to ensure uniform standards of activities in the relevant areas in the electric grid sector, corporate educational projects are underway in innovative development, internal audit and control, asset management, etc.

8.4.2. Cooperation with Educational Institutions

Cooperation with Higher Education Institutions

Given the importance of satisfying the electric grid sector's long-range demand for highly qualified young employees, all of the Company's SDCs systematically work on cooperation with educational institutions. In 2013, they were engaged in implementing partnership programs with 129 higher education institutions, including 71 under cooperation agreements.

Some higher education institutions are partners of several Russian Grids SDCs, including power engineering universities (Moscow Power Engineering Institute, Ivanovo State Power Engineering University, and Kazan State Power Engineering University) and leading regional technical universities (South Russian State Technical University, Tomsk Polytechnic University, South Ural State University, St. Petersburg State Polytechnical University, etc.). Four higher education institutions set up base departments:

- the Khakassia Technical Institute, which is a branch of the Siberian Federal University, established the Electricity Industry Department with the participation of IDGC of Siberia (Khakassenergo branch);
- the Murmansk State Technical University established a branch of the Energy and Transport Department at the training center of Kolenergo, a branch of IDGC of North-West;
- the Saint Petersburg State Agrarian University set up the Energy Conservation and Energy Efficiency Enhancement Department;
- MGIMO's International Institute of Energy Policy and Diplomacy established the Economics and Management in the Electricity Sector Department.

The principal instruments for cooperation with the educational establishments selected as base institutions were as follows:

- providing target-oriented training for employees of electric grid companies;
- selecting the best students, working with them over the course of their studies, including providing scholarship support, organizing externships, and subsequently providing them with employment at electric grid companies;
- organizing the work of student labor brigades at electric grid facilities;
- encouraging educational institutions to give due consideration to the particularities of electric grid companies' activities in training young specialists by means of the development/refinement of educational institutions' energy-related training programs (including engineer training programs and master's degree programs), engaging company employees to participate in the training process, etc.;
- organizing company employees' dissertation-level research on issues vital for the electric grid sector's development;
- involving students and postgraduates in work and research on issues related to electric grid companies' activities;
- implementing joint occupational guidance projects.

In addition, the Company assists in the improvement of the physical infrastructure of educational establishments by equipping lecture rooms and laboratories and providing samples of electric grid equipment; for instance, in 2013, LENENERGO provided software and hardware for training in modern communications and remote control systems at the Saint Petersburg State Agrarian University, and IDGC of Siberia provided samples of electric grid equipment for nine higher education institutions located in the regions of the company's operations.

Special attention is given to practical training for future energy workers: curators were appointed for final graduation works; practical studies and traineeships were organized. About 2,500 students have externships and internships at electric grid facilities annually.

Given the special role of labor in education to recruit and retain young people in electric grid companies, student labor brigades are revived. This initiative was pioneered by FGC UES, LENENERGO, and IDGC of Siberia. During the fourth season of energy labor brigades in 2013, almost 1,500 students at higher and secondary professional education institutions were enabled to learn about occupations by working in student labor brigades across the country.

In order to ensure coordinated interaction between the electric grid sector and higher education institutions in organizing the work of student labor brigades; on October 21, 2013, during the All-Russia Forum of Student Labor Brigades in Sochi, Russian Grids signed a cooperation agreement with Russian Student Brigades.

Systematic efforts in cooperating with higher education institutions resulted in Russian Grids's and its SDCs' hiring more than 600 graduates in 2013.

Cooperation with Primary and Secondary Professional Education Institutions

With due regard to required workforce qualifications required and given that workers are in great demand, the Company's SDCs build up cooperation with primary and secondary professional education institutions. Partner relations were maintained with 162 vocational education establishments in all regions of SDCs' operations.

Since existing primary and secondary professional education institutions cannot satisfy electric grid companies' requirements in full, work is underway on repurposing vocational education establishments, setting up additional training areas, and upgrading the training infrastructure. For instance, in cooperation with FGC UES, the Company opened two energy colleges in Kaspiysk and Vladivostok and set up an electrical laboratory at Nevinnomyssk Energy Training School.

Regional authorities are involved in project implementation: under the agreement between Russian Grids and the Krasnodar Territory Administration (agreement operator: Kubanenergo), the Resource Energy Center was established on the base of Secondary Professional Education School No. 19 in Sochi in 2013.

Understanding the employer's responsibility for preserving the professional personnel training system, electric grid companies use their best efforts to provide vocational education establishments with financial and methodological support.

8.4.3. Personnel Reserve Development

Its attitude toward personnel as a valuable asset is evidenced by how scrupulously the Company treats its personnel reserves. Employee career management is a key area of the activities of SDCs' HR departments, and personnel development measures are viewed as long-term investment that contributes to the further development of the electricity distribution grid sector.

The Group's companies currently have the following types of personnel reserves:
- managerial personnel reserves;
- youth personnel reserves;
- key personnel reserves (not in all SDCs).

Managerial personnel reserves are established for senior and middle-level management positions in order to have employees with the requisite experience, managerial qualities, and leadership competencies when it is necessary to promptly fill any vacancies.

The principal criteria for including an employee in the managerial personnel reserves are as follows:
- high professional qualifications;
- operating efficiency;
- potential necessary for professional development and career development;
- pronounced leadership qualities;
- motivation for career development;
- mobility (readiness to move from one area to another).

Training for a personnel reserve member for his/her target position starts with formulating an individual development plan that takes account of the candidate's professional and managerial experience and the development level of his/her competencies. The plan consists of various measures and includes the mastering of theoretical skills, participation in training programs and events, traineeships, and temporary duty in his/her target capacity.

The managerial personnel reserves of the Russian Grids Group comprise about 10,000 employees and executives. In 2013, around 900 managerial personnel reserve members moved to a more senior role in SDCs and their branches, with half of them promoted to executive positions.

Given that personnel training is a process that is designed for long-term purposes, in order to retain and develop young specialists and involve them in dealing with issues vital for the electric grid sector, the Company continued in 2013 to carry out the large-scale project launched in 2011 with respect to youth personnel reserves. Measures were taken to update the composition of personnel reserves at branch level and at SDCs in general.

The creation of youth personnel reserves allows:
- singling out from among young employees those who are motivated and have the high potential for development;
- creating the conditions that will enable young employees to acquire professional and managerial competencies required by distribution grid sector companies;
- providing young employees with opportunities for faster career advancement.

8.5. Professional Contests

Professional contests are a traditional area of Russian Grids's personnel policy, making it possible to increase electric grid companies' employees' motivation and improve their qualifications.

As decided by the working meeting of representatives of CIS national energy systems responsible for preparing and holding the 2013 International Competition, the Energetik Personnel Training Center of Brestenergo, Belenergo, Belarus, hosted in September 18–28, 2013, the 10th International Professional Competition Among Electricity Industry Personnel of CIS Countries of 2013, namely the International Competition Among Substation Electrical Equipment Repair and Maintenance Crews (hereinafter, the "International Competition").

The following countries participated in the International Competition:
- Russian Federation;
- Republic of Armenia;
- Republic of Belarus;
- Georgia;
- Republic of Kazakhstan;
- Kyrgyz Republic;
- Republic of Tajikistan;
- Republic of Uzbekistan;
- Ukraine.

Principal goals and objectives of the International Competition:
- improve and evaluate the professional qualifications of substation electrical equipment repair and maintenance personnel of CIS countries;
- develop occupational safety culture for the operation and repair of substation equipment;
- improve workforce qualifications and the quality of repairing and operating substation equipment, reduce injuries, and propagate best practices;
- share advanced experience in the operation and repair of substation equipment;
- strengthen traditional professional relations among energy workers from the countries participating in the International Competition.

The Russian representative of Russian Grids at the International Competition was the team of FGC UES's branch, Zapadno-Sibirskoye PMES, which had won the 2011 Interregional Competition Among 220–1,150-kV Substation Equipment Maintenance and Repair Personnel.

The International Competition included additional events:
- thematic exhibition of designers of equipment and technology for the maintenance and repair of electrical installations and safety guards;
- conference on psychophysiological support for the work of electricity companies' personnel of CIS countries;
- meeting of the working group on the development of the interaction system for accidents and other emergency situations affecting electric power facilities of CIS countries.

After the International Competition, the representatives of the participating countries praised the excellent organization of the event and the high qualifications of the competing teams.

At the International Competition, the Russian team (Zapadno-Sibirskoye PMES, a branch of FGC UES) finished second behind the Belarusian team. Zapadno-Sibirskoye PMES of FGC UES received the Second-Place Cup for overall standings, and the team members were awarded silver medals and prizes.

8.6. Share of Personnel Covered by Collective Bargaining Agreements

The collective bargaining agreements apply to over 87% of employees of Russian Grids SDCs, except for senior managers. FGC UES does not have in effect a collective bargaining agreement, but the pay conditions, benefits, guarantees, and compensation offered by FGC UES are not worse than those contained in the SWRA.

8.7. Existing Labor Compensation System and Motivation Programs

The motivation programs and social guarantees offered by the employer have an important role in recruiting and retaining employees.

Financial and non-financial incentives for personnel of Russian Grids SDCs in 2013 were provided under the existing collective bargaining agreements, pay regulations, and other local documents governing the procedure for social benefits and guaranties for employees.

The composition of the employee's social package specified in the collective bargaining agreements was in accordance with the list of benefits, compensation, and guarantees defined in the SWRA.

The labor compensation system applicable to SDCs' employees includes:
- a salary component, which is the base value for setting the compensation level at wage rates (official salaries) in accordance with the Uniform Wage Scale and the List of Positions (Jobs) Distributed Among Labor Compensation Stages subject to indexation in accordance with the collective bargaining agreements of SDCs and their branches;
- additional incentive pay and benefits for a working environment other than normal conditions and for special working conditions (roving work, multishift work, night work, etc.);
- bonuses for attaining collective performance indicators and for individual results;
- longevity pay (compensation for the length of continuous service in the electricity industry);
- compensation for the year's economic results;
- special bonuses.

The year 2013 witnessed changes in the system of key performance indicators (KPI) for the directors general and senior managers of SDCs. The KPI list was revised to implement the instructions issued by the Russian President and the Russian Government with the purpose of improving managers' motivation in implementing the Strategy for Development of the Electric Grid Sector of the Russian Federation approved by Ordinance of the Government of the Russian Federation No. 511-r of April 3, 2013.

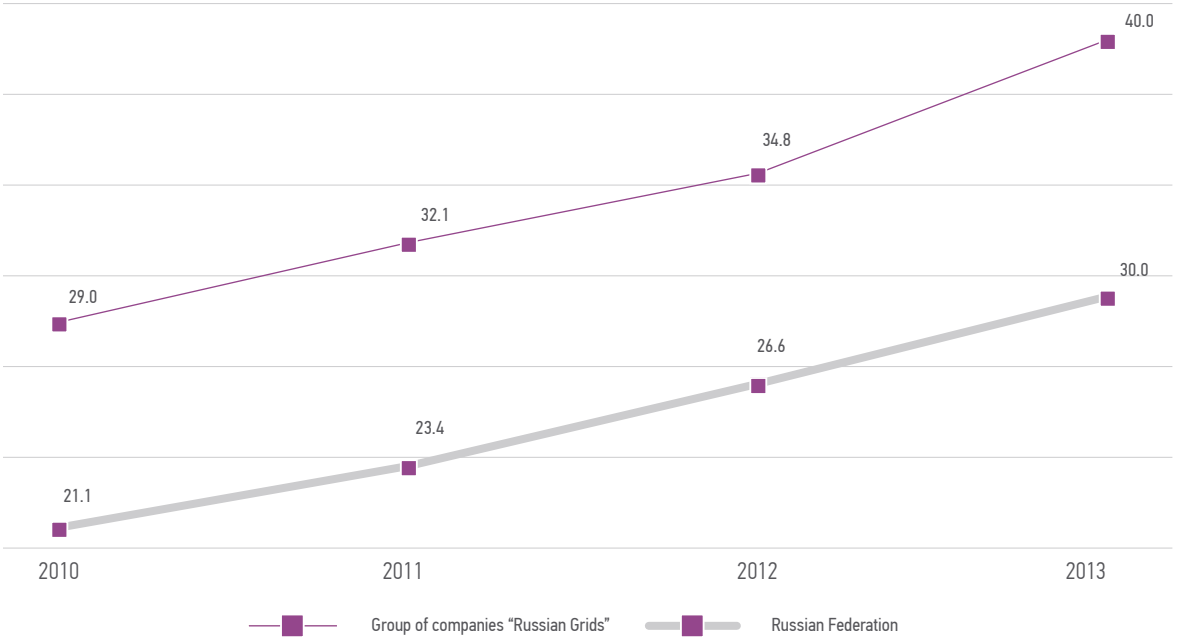
In order to comply with the provisions of the Sectoral Wage Rate Agreement in the Electric Power Industry of the Russian Federation for 2013–2015, most SDCs raised the minimum monthly first-category worker wage rate to exceed the growth of Russia's consumer price index in 2013, effective from July 1, 2013.

The minimum monthly first-category worker wage rate was increased to exceed the inflation rate for the first time in several years. From January 1, 2009, to July 1, 2013, wages and salaries paid to electricity distribution grid companies' employees effectively did not grow because, in this period, the minimum monthly first-category worker wage rate was indexed only to the actual growth of consumer prices.

In order to increase the competitiveness of labor compensation paid to employees involved in the operation of electric grid facilities of the Sochi power district in connection with preparations for the XXII Olympic Winter Games and the XI Paralympic Winter Games in 2014, the following measures in the area of personnel motivation were taken in 2013:
- targeted increases in pay for key positions and occupations;
- personal additional pay for a period of up to one year in the amount of 100% of official salaries (wage rates);
- reimbursement for employees' expenses associated with accommodations (utility services, hostel accommodations, apartment rents);
- additional pay as reimbursement for special working conditions other than official salaries (wage rates).

Traditionally, the average wages and salaries in the electric grid sector in 2013 exceeded the average amount of labor compensation in the Russian Federation.

Average Monthly Pay in the Electric Grid Sector vs. the Russian Federation, rubles in thousands



Employees of SDCs received the following social pay in 2013:
- vacation pay;
- bonuses in connection with jubilees and received official and corporate awards;
- partial compensation for electricity and heating expenses;
- benefit payments for employees in exceptional circumstances;
- additional compensation for business travel expenses, compensation for mobile communication expenses and recreational activity expenses (including the holding of sports and cultural events) and other benefits raising the living standards of the Company's personnel.

The existing motivation system and active participation in developing the social partnership enable the Company to offer adequate pay and contribute to maintaining the stability of the workforce oriented to the achievement of Russian Grids's strategic goals.

8.8. Non-State Pension Coverage (NSPC); Provision of Care for Pensioners and Veterans

The elderly are the most vulnerable to changes in the country's socioeconomic policy; therefore, a priority of the Company's social policy is to provide social support for its former employees, namely retirees. A component of support for this employee category is the Non-State Pension Coverage Program.

The Company continued in 2013 to carry out the non-state pension coverage programs. Priority was given to the corporate plan (Support Program), as well as the Parity Plan and the Cofinancing Program combining pension accruals financed by the government, the Company's SDCs, and employees.

The electric grid sector's veteran organization comprises almost 45,000 people; more than 4,000 of them participated in the Great Patriotic War. About 20,000 continue to work. The electric grid sector's Coordinating Council of Veterans works to consolidate the Company's veteran movement.

The most important goals aiming to support veterans and ensuring intergenerational continuity in the electric grid sector are as follows:
- development of the mentoring movement and involving the industry's veterans in instructional activities;

- support for labor dynasties (the Russian Grids Group has 481 dynasties, or 1,852 employees with 47,160 years of service overall;
- organizing sanatorium-resort therapy for veterans;
- supporting the work of creative veteran clubs;
- providing benefit payments for retirees in connection with jubilees, bad financial condition, and medical treatment;
- organizing cultural events for veterans.

The projects completed in 2013 with the involvement of and to the benefit of veterans included:

- conducting the Clean Springtime campaign: veterans' apartments were cleaned with the participation of the Councils of Youth (Young Employees), and minor repairs were carried out to homes of Great Patriotic War veterans and those who worked in the rear;
- providing veterans with subscription to regional newspapers;
- holding events to mark the 68th anniversary of the Victory in the Great Patriotic War (solemn meetings and meetings with veterans);
- conducting the tree planting campaign Let's Conserve Forest Energy;
- commemorating 54 employees of electric grids who received all three classes of the Order of Glory and 28 who were awarded the title Hero of the Soviet Union;
- supporting museums and setting up and expanding commemorative centers for war and labor veterans and companies' history.

8.9. Youth Policy

Increased attention to pursuing the Uniform Youth Policy is due to the fact that young employees aged 35 and below represent about a third of the Company's staff.

The Russian Grids youth policy is aimed at involving young employees in social activities, encouraging professional and creative activities, and realizing their scientific potential.

To ensure the implementation of the youth policy and provide an instrument for interaction between young personnel and management of the Company's SDCs, the Unified Council of Youth in the Electricity Distribution Grid Sector and Councils of Youth (Young Employees) of SDCs were formed.

Youth associations of the Company's SDCs were actively involved in carrying out social projects. As part of marking the 68th anniversary of the Victory in the Great Patriotic War, the Unified Council of Youth took part in organizing celebrations for employees who participated in the Great Patriotic War.

8.10. Health Care and Social Support for Personnel

With a view to maintaining social protection, employees continued in the reporting period to be provided with voluntary health insurance, personal accident insurance, and sickness insurance services in accordance with the approved insurance coverage programs of the Company's SDCs.

Voluntary health insurance agreements enabled employees to receive additional medical care from the country's leading diagnostic and treatment centers on top of what they were entitled to under the Program of Government Guarantees for Free Medical Services Provided for Russian Federation Citizens.

The Company gives special attention to promoting sports and safeguarding the health of personnel. In 2013, Sochi hosted the winter corporate games among electric grid companies' employees competing in 24 picked teams of Russian Grids and SDCs. Among the athletes were also three teams of energy department students at the Moscow Power Engineering Institute, the Ivanovo State Power Engineering University, and the North-Caucasus Federal University. Overall, more than 650 athletes from the electric grid sector participated in the competitions.

Following the tradition of annual voluntary cleanup campaigns in the spring, over 1,000 employees of electric grid companies and their family members volunteered for cleanup activities in the Fili recreation park in April 2013.

8.11. Reduction of Occupational Injury Rates

8.11.1. Principal Measures to Reduce Injury Risks

Russian Grids continuously works to develop and improve measures aiming to reduce the risk of occupational injuries:

1) Russian Grids videoconferences conducted by the First Deputy Director General with executives and senior managers of SDCs on a weekly basis discuss accident information and issue related instructions;
2) on a periodic basis, SDCs are furnished with analytical reviews of occupational injuries, detailing the circumstances and causes of accidents and, wherever possible, containing annexes, clarifying photographs, graphs, and recommendations regarding accident prevention;
3) in the event of any fatal accidents directly connected with the operation of electrical equipment, messages are promptly sent, describing the circumstances of such accidents and their preliminary causes;
4) on a yearly basis, meetings are held with occupational safety units of SDCs, discussing their performance results and urgent issues, including with respect to occupational injury risk mitigation;
5) an analysis of accidents occurring in 2008–2011 found systemic reasons for accidents; the analysis provided a basis for formulating the injury risk mitigation programs for personnel and outsiders at facilities of SDCs for 2010–2013.

The program to reduce SDCs' occupational injury risks focuses on:

- improving the system of occupational safety management and supervision over safe performance of work;
- improving technical standard documents pertaining to the organization and implementation of safe performance of work;
- improving the methods and techniques for safe performance of work:
  - in the course of performing accident recovery work;
  - in the course of clearing overhead line routes;
  - in the course of handling factory-assembled switchgear;
  - in the course of conducting climbing operations (on transmission towers) and doing elevated jobs;
  - the use of protective equipment;
  - the performance of work involving induced voltage.

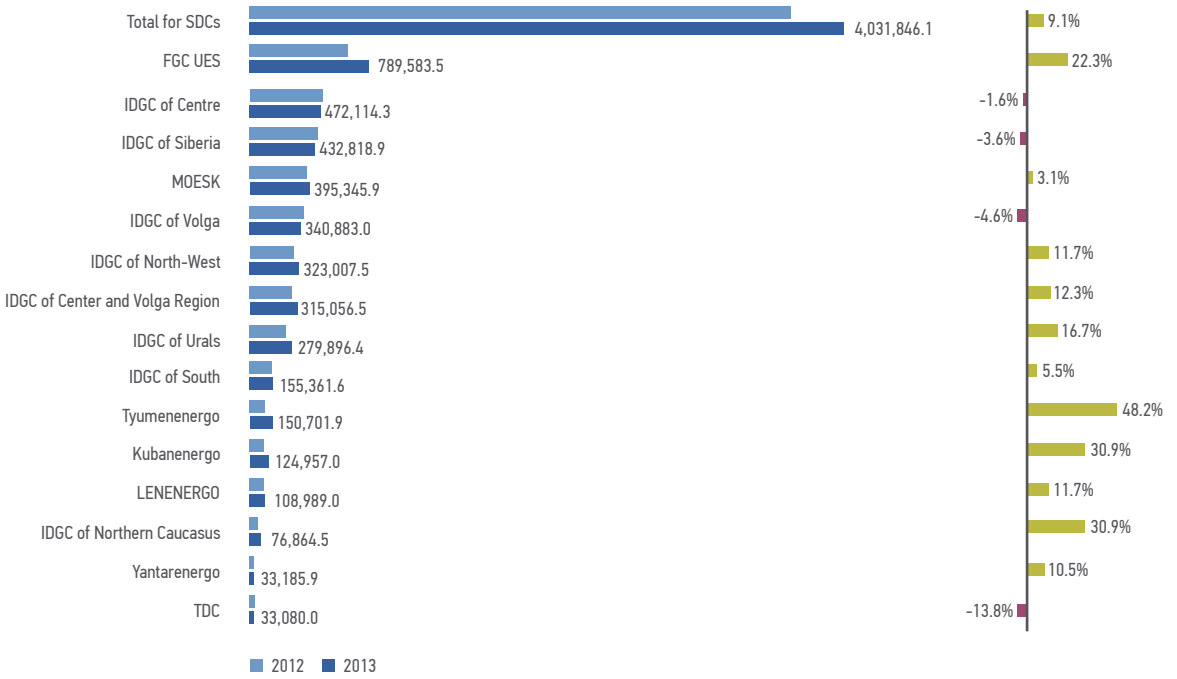
The program to reduce injury risks that may affect outsiders at electric grid facilities focuses on:

- cooperating with governmental authorities, supervisory and controlling authorities, and law enforcement and security agencies;
- preventing electrical injuries that may affect children and teenagers;
- developing measures to protect power facilities from equipment and material theft that is a cause of injury and death in outsiders;
- developing measures to prevent unauthorized network connections that result in electrical injuries;
- developing measures to prevent electrical injuries that may affect people engaged in fishing;
- assessing the technical condition of electrical installations and making them meet safe operation requirements (project specifications, electrical installation regulations, and other regulatory documents).

Occupational safety costs[1] totaled 4,031.8 million rubles in 2013. Tyumenenergo demonstrated the highest increase in expenses (+48%).

[1] These include expenses associated with accident prevention measures, hygienic measures to prevent occupational diseases, general measures to improve working conditions, and measures to supply employees with personal protective equipment.

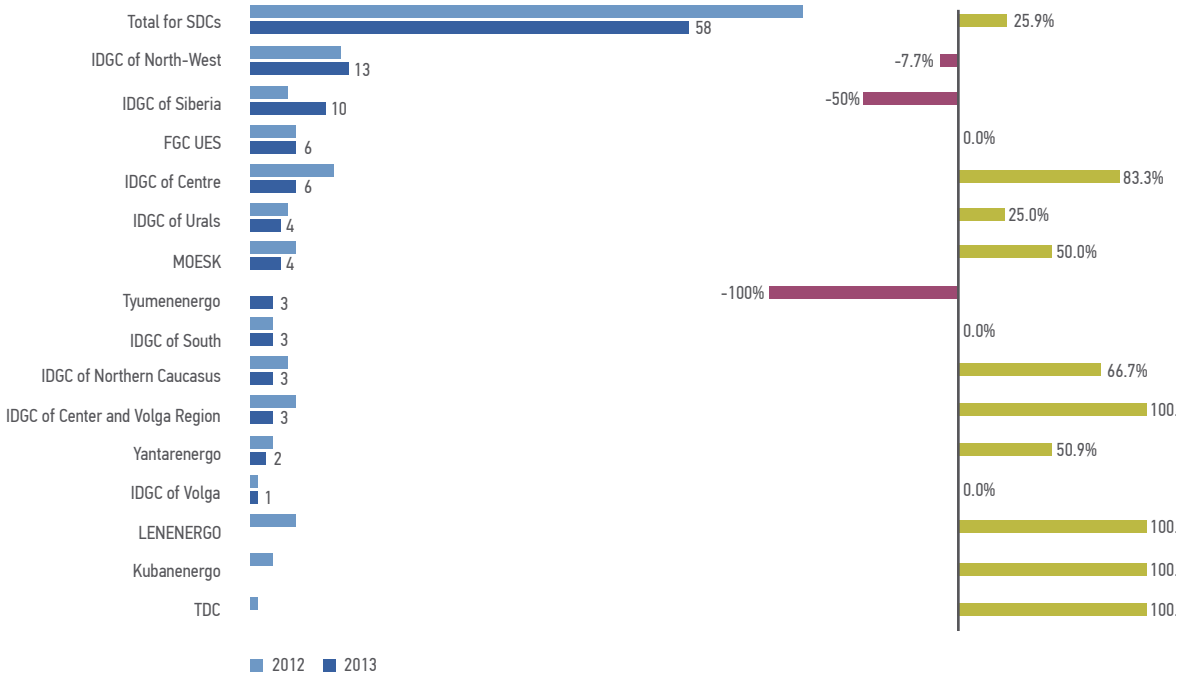
Occupational Safety Expenses, rubles in thousands



8.11.2. Occupational Injury Statistics

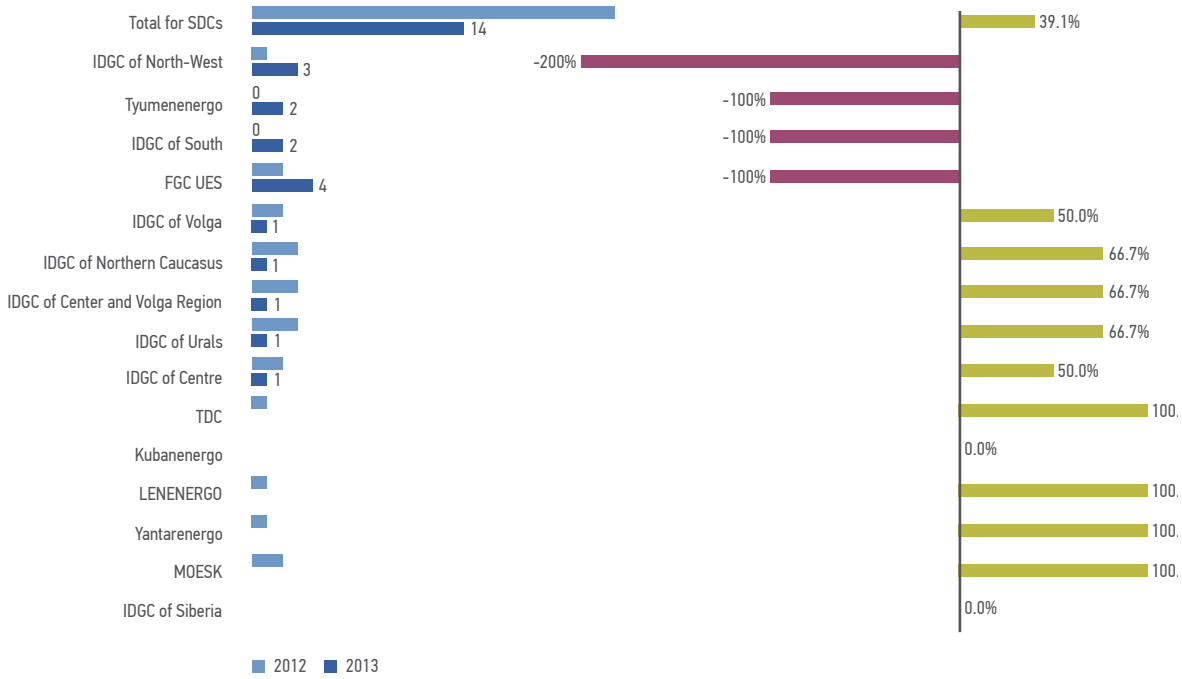
The year 2013 saw 58 occupational accidents at Russian Grids SDCs, involving 63 people (including 14 fatal accidents and 20 severe injures).

Number of Accidents



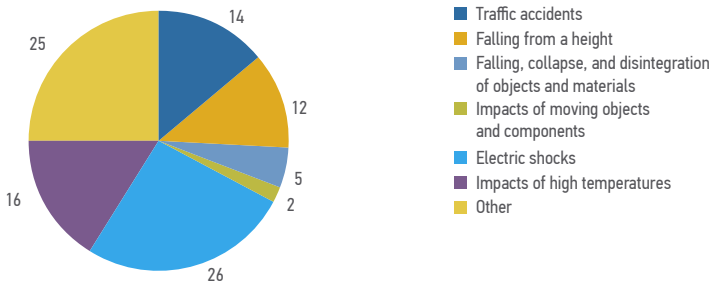
Compared with 2012, the number of accidents decreased by 16 (22%), the number of injured persons went down by 15 (20%), and the number of deaths fell by 9 (39%).

Number of Fatal Accidents



The main cause of injuries in 2012 and 2013 was electric shocks and arcing faults affecting personnel operating electrical installations: electrical injuries accounted for 45% and 42% of total accidents in 2012 and 2013 respectively.

Causes of General Injuries in 2013, %



Electric shocks were also the main cause of occupational injuries, representing the largest proportion of fatal accidents (72% in 2013).

The main causes of occupational injuries were as follows:

- failure to comply with technical regulations prescribing the switching-off and grounding of current-carrying parts of operating electrical installations; failure to use personal protective equipment while approaching ungrounded current-carrying parts;
- negligent handling of operating energized equipment.

09 ENVIRONMENTAL SAFETY AND ENVIRONMENTAL PROTECTION

Operations of Russian Grids and its SDCs do not involve a material adverse environmental impact that can lead to environmental disasters or cause any irreversible change to wildlife. Environmental safety requirements applicable to electrical installations are established in the equipment design phase with due consideration to such issues as the need for the protection of soil from oil products (construction of oil receivers and drainage systems under oil-filled equipment containing more than 1 tonne of oil) and for the protection of people and animals from exposure to current-carrying part (prevention of unauthorized touch or penetration).

9.1. Key Goals of Environmental Responsibility

The procedure for implementing voluntary mechanisms of the Company's environmental responsibility and the necessity for the regular publication of Russian Grids non-financial reports are set out in Directive No. 1710p-P13a of March 30, 2012, approved by Russian Prime Minister Vladimir Putin.

The goals and objectives of Russian Grids's environmental responsibility are contained in the guidelines and ruling documents prepared and constantly updated at the level of SDCs. The key areas of protecting the environment against the adverse impact of operating activities of the distribution grid organizations managed by the Company are set forth in the Programs of Environmental Policy Implementation specifying environmental protection measures in the areas listed below:

- air protection;
- water protection and conservation;
- land protection and conservation;
- technical measures;
- resource conservation and energy efficiency enhancement.

9.2. Environmental Protection Initiatives and Current Programs

9.2.1. Air Protection

Overall, air emissions decreased from 1,403 to 1,256 tonnes (or 10.5% down) in 2013, including 144.25 tonnes of solid emissions (16% down) and 1,073.71 tonnes of liquid and gaseous emissions (10% down) in the reporting period, namely:

- 78.58 tonnes of sulfur dioxide (13.5% down);
- 539.97 tonnes of carbon oxide (1.9% down);
- 195.78 tonnes of nitrogen oxide (rebased to NO2) (10.0% down);
- 12.40 tonnes of hydrocarbons (net of volatile organic compounds) (45.8% down);
- 297.74 tonnes of volatile organic compounds (2.5% down);
- 0.13 tonnes of benzopyrene (8.6% down).

The reduction in emissions is due to air protection measures, including:

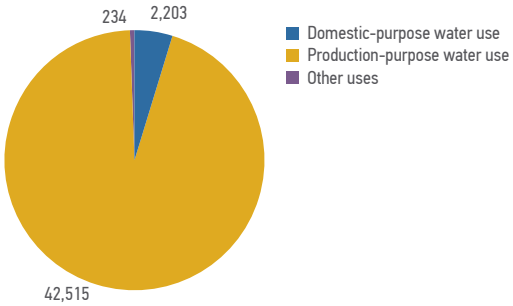
- controlling the harmful content of vehicle exhaust emissions to prevent impermissible excess values, adjusting vehicle fuel systems, and replacing gasoline systems with gas-powered systems;
- renovating and landscaping land;
- putting into operation dust-collecting units for woodworking machines.

Some branches of SDCs where the key adverse factors were the noise generated by the cooling systems of supply transformers in the case of substations rated 35 kV and above that were located near residential areas and the exhaust gas emitted by vehicles in the case of motor depots located near residential areas worked to develop and justify sanitary protection zones.

9.2.2. Water Protection and Conservation

Overall, water withdrawal in the reporting period was 44,384 thousand cbm, or 50% more than in 2012. Most water came from surface sources (42,380 cbm, or 53% up), and a relatively small amount came from underground sources (604 cbm, or 2% down) and other sources (1,444 cbm, or 4% up). 44,959 thousand cbm of water was mainly utilized for production purposes (42,514 thousand cbm).

Water Uses, cbm in thousands



Water protection and conservation measures generally dealt with:
- exercising compliance control with respect to maximum permissible concentrations in effluents in sewerage and storm drainage systems;
- repairing drainage systems to prevent effluents with exceeded maximum permissible concentrations from coming into sewerage systems or ground water;
- improving drainage systems, complying with laws with respect to making payments to specialist organizations for the receipt and treatment of effluents;
- controlling the condition of the treatment facilities of vehicle-washing plants;
- installing new filters and chemical agents at closed-water-cycle vehicle-washing plants, etc.

9.2.3. Land Protection and Conservation

In 2013, the Company generated 87,615 tonnes of waste, or 2.6% down from 2012. This amount includes ash and slag totaling 0.94 tonnes (8.5% down). 2,682 tonnes of waste remained at the end of the year. Waste treatment measures generally dealt with:
- disposing of production waste;
- transferring (entering into agreements for the transfer of) production waste to specialist organizations for subsequent processing and dumping;
- setting limits on waste disposal and providing equipment for temporary waste storage places.

In the reporting period, most waste was transferred to outside organizations (86,023 tonnes) while an inconsiderable portion of 15.22 tonnes was decontaminated.

In 2013, 15.08 hectares of land was damaged (89% down), all of which was rehabilitated. Only 1.69 hectares of damaged land remained at the end of the year.

9.2.4. Technical Measures

Technical measures are the main area of grid organizations' activities: the operation of electrical installations whose specifications, requirements, and characteristics comply with the applicable legislative acts, including with respect to environmental issues. The focus in 2013 was on the following measures:

- oil-filled circuit breakers were replaced with vacuum equipment that does not contain oil products contaminating land;
- repairs were carried out to oil receivers and drainage systems, and a disposal was made of trichlorodiphenyl-filled static compensator battery cells pursuant to the Stockholm Convention on Persistent Organic Pollutants to ensure their safe operation, decommissioning, and disposal without causing harm to people;

This equipment is disposed of in a phased manner according to its technical condition and depending on planned replacement and disposal expenses. A phased draft of the schedule for disposing of capacitor cells was made for 2013–2025. Disposal of static compensator battery cells in 2013:
– IDGC of Centre: 3,131 cells with a total weight of 108 tonnes;
– Kubanenergo: 252 cells with a total weight of 13 tonnes;
– IDGC of Siberia: 438 cells with a total weight of 25 tonnes;
– IDGC of Urals: 392 cells with a total weight of 11 tonnes.

- reducing payments for permissible and above-level emissions, effluents, and waste disposal; compared with 2012, the reduction is 5.2 million rubles due to the decreased volume of fivefold payments resulting from the completed preparation and approval of permits at most SDCs; payment for an adverse environmental impact decreased by 5,185 thousand rubles compared with 2012 to 38,852 thousand rubles;
- new construction, rehabilitation, and technical upgrading of overhead lines rated 1,000 V and below use self-supporting insulated wires and 6–20 kV protected-wire overhead lines are built, which decreases the area of cut-over land and protects birds from an electric shock;
- new construction in large birds' nesting areas does not use towers with pin insulators; bird barriers are installed;
- bird protection equipment, including visual and acoustic repellents, was mainly installed in large bird habitats and migration paths.

Overall, the Company purchased and installed 10,015 bird protection equipment units, totaling 3.8 million rubles, including as follows:
– IDGC of Center and Volga Region in 2013 purchased 4,593 bird protection equipment units for overhead lines of its branches Marienergo, Ivenergo, and Nizhnovenergo for 1.6 million rubles. First, bird protection equipment is installed on overhead lines located in conservation and wildlife areas. The total number of bird protection equipment units installed on 6–10 kV overhead lines of IDGC of Center and Volga Region is 14,770, which made it possible to provide equipment for about 500 kilometers of lines.
– Under the program, IDGC of Volga in 2013 purchased and installed 25,254 bird protection equipment units for Ulyanovsk Distribution Networks, 1,656 units for Mordovenergo, and 1,479 units for Orenburgenergo.
– IDGC of Siberia in 2013 completed measures to install bird protection equipment on 6–10 kV overhead lines.

- noise screens were installed in 110 kV substations to reduce noise in residential areas to the maximum permissible limit in accordance with SanPiN;
- rehabilitation and re-equipment of oil-filled supply transformers rated 6–10/0.4 kV was accompanied by their gradual replacement with oil-filled sealed, dry transformers, which makes it possible to minimize oil product spills contaminating land;
- construction and repair of cable lines used modern cables with insulation made of cross-linked polyethylene and heat shrink tubing, which reduces the use of lead.

9.2.5. Resource Conservation and Energy Efficiency Enhancement

Measures in the area of environmental safety and environmental protection also include Russian Grids's energy efficiency enhancement and energy conservation. In 2013, the Company organized activities aimed at the regular monitoring of resource use efficiency.

With the aim of implementing (developing) the vertically integrated corporate energy management system, Russian Grids and Russian Grids SDCs (MOESK, IDGC of South, and FGC UES) in 2013 carried out the projects to

develop and implement the energy management system in accordance with the national standard GOST R ISO 50001:2012. Energy management systems. Requirements with guidance for use (ISO 50001:2011).

The organizational and technical measures aimed at energy conservation and energy efficiency enhancement were carried out by Russian Grids SDCs under the Energy Conservation and Energy Efficiency Enhancement Programs of Russian Grids SDCs for 2013–2017 as part of the Consolidated Energy Conservation and Energy Efficiency Enhancement Program of Russian Grids for 2011–2015.

Expenses associated with the purchase of fuel and energy for production and business purposes totaled 5,061.0 million rubles (inclusive of VAT) in 2013.

Energy Resource Consumption for Business Purposes in 2013

Target Value/Indicator	Unit of Measurement	2013 (plan)	2013 (actual)	Deviation, %.
Resource consumption for business purposes	million rubles (exclusive of VAT)	4,999	5,061	-0.8
Electricity	million rubles (exclusive of VAT)	2,835.2	2,552.8	-1.2
	million kWh	1,039.9	993.2	10
Heat	million rubles (exclusive of VAT)	584.6	501.4	4.5
	thousand Gcal	628,487.4	446,076	14.2
Other (gasoline, kerosene, and diesel fuel)	million rubles (exclusive of VAT)	1,441.7	1,889.5	-31.1
	tonnes of fuel equivalent	24,011.9	23,491.8	2.2
Hot water supply	thousand cbm	189.6	144.3	24
	million rubles (exclusive of VAT)	8	6.1	23.6
Cold water supply	thousand cbm	3,330.4	2,912.2	12.6
	million rubles (exclusive of VAT)	59.6	70.2	-17.9
Natural gas	thousand cbm	11,973.5	9,705.6	18.9
	million rubles (exclusive of VAT)	69.8	41	41.3

In 2013, the actual effect of measures to reduce energy resource consumption for business purposes was 140.45 million rubles.

As a result of the target-oriented measures taken in 2013 to reduce energy resource consumption for production and business purposes, the ultimate effect was 140 million rubles.

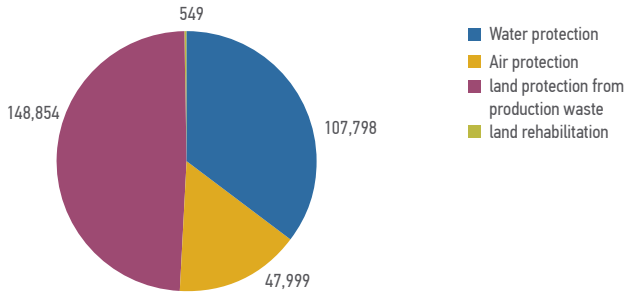
Measures to Reduce Energy Resource Consumption for Production and Business Purposes

Target Value/Indicator	Unit of Measurement	Effect (in physical terms)	Effect, rubles in millions
Electricity	million kWh	0.9	11.3
Heat	Gcal	87,154.9	105.2
Hot water supply	thousand cbm	29.1	1.8
Cold water supply	thousand cbm	699.2	15.4
Natural gas	thousand cbm	2,161.9	6.6
Other (diesel fuel, kerosene, gasoline, etc.)	thousand tonnes of fuel equivalent	4.5	0.1
Total			**140.5**

9.3. Environmental Protection Expenses

In the reporting period, total environmental protection expenses rose by 2.4% from 297,971 thousand rubles in 2012 to 305,200 thousand rubles in 2013. The rise in total expenses was largely due to higher air protection expenses (37% up) while land rehabilitation expenses were substantially lower (91% down); however, water protection expenses and land protection expenses remained almost unchanged (2.4% up and 1.9% down respectively).

Environmental Protection Expenses in 2013, rubles in thousands



10 APPENDICES

10.1. Compliance Table to GRI G3 Guidelines

GRI Indicator	Report Page	Note
1.1. Statement from the most senior decision maker of the organization	Pages 4–5	
1.2. Description of key impacts, risks, and opportunities	Pages 28–40	Partially reported – key impacts and opportunities not reported
2.1. Name of the organization	Page 7	
2.2. Primary brands, products, and/or services	Page 7	Primary products described
2.3. Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures	Page 8	Partially reported
2.4. Location of organization's headquarters	–	
2.5. Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	–	The Company operates only within Russia
2.6. Nature of ownership and legal form	–	
2.8. Scale of the reporting organization:	Page 73	
Number of employees	Page 73	
2.9. Significant changes during the reporting period regarding size, structure, or ownership	–	
2.10. Awards received in the reporting period	Pages 8	
3.1. Reporting period for information provided	Pages 18–19	
3.2. Date of most recent previous report	Page 18	
3.4. Contact point for questions regarding the report or its contents	Page 21	
3.12. Table identifying the location of the Standard Disclosures in the report	Page 93	
EC3 Coverage of the organization's defined benefit plan obligations	Page 82	Partially reported
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Pages 60–64	
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Pages 61–63	
EN20 NOx, SOx, and other significant air emissions by type and weight	Page 88	
EN22 Total weight of waste by type and disposal method	Page 89	
EN30 Total environmental protection expenditures and investments by type	Page 91	
LA1 Total workforce by employment type, employment contract, and region	Pages 73–74	
LA2 Total number and rate of employee turnover by age group, gender, and region	Page 74	
LA4 Percentage of employees covered by collective bargaining agreements	Page 81	
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Pages 87–88	Partially reported
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Pages 78–79	
LA10 Average hours of training per year per employee by employee category	Pages 78–79	Partially reported
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Pages 78–80	Partially reported

10.2. Report Assurance

Expert opinions on the 2013 Corporate Social Responsibility and Sustainability Report of Russian Grids.

KAMALUDIN GADZHIEV

Doctor of Science (History), Professor, Chief Researcher, Institute of World Economy and International Relations, Russian Academy of Sciences

The publication of its fourth non-financial report shows that Russian Grids consistently works toward transparency and dialog with all stakeholders. An important achievement in this area is the formulation of the Policy on Society, Customer, and Government Relations of Russian Grids. The 2013 report contains a stakeholder influence map and defines the principles and key subjects of stakeholder relations. It is noteworthy that, compared with the 2012 report, the Company carried out several measures related to relations with key stakeholders; their description and results are given in Section 3.1.

With respect to customer relations, the most significant accomplishments are the launch of the Uniform Network Connection Portal at портал-тп.рф and the formation of the Councils of Customers of Russian Grids and SDCs. This proves that the Company is willing to interact and cooperate with its customers on equal terms and determined to make its tariffs more affordable and transparent. In 2013, the Company also continued to implement the measures specified in the Road Map "Enhancing the Affordability of the Power Infrastructure" approved by the Russian Government.

Russian Grids places great emphasis on environmental responsibility. Information on environmental policy was disclosed in more detail than for the previous reporting period, which is an important step in improving the Company's non-financial reporting system. Additionally, it is of particular note that the Company's environmental policy covers such issues as energy efficiency enhancement and energy conservation. In the reporting period, the Company and SDCs carried out the projects to develop and implement the energy management system in accordance with the national standard GOST R ISO 50001:2012. Energy management systems. Requirements with guidance for use (ISO 50001:2011).

This report enables you to conclude that sustainability issues continue to be among the Company's strategic priorities. Overall, the completeness and quality of reported information on all key aspects of sustainability deserve a positive reception. It should be noted, however, that the Company is advised to pay more attention in its future non-financial reports to analyzing social and environmental risks involved in its activities.

LYUDMILA ILYICHYOVA

Doctor of Science (Political Science), Professor, Russian Presidential Academy of National Economy and Public Administration; Program Director, Public-Private Partnership Center, Russian Presidential Academy of National Economy and Public Administration; Chief Executive Officer, Intellectual Technologies

The 2013 corporate social responsibility and sustainability report of Russian Grids is already the fourth of its kind, which demonstrates that the principles of sustainability have been integrated into the Company's day-to-day business practice and that the Company systematically works to advance its non-financial reporting. This report is prepared in accordance with the G3 Sustainability Reporting Guidelines released by the Global Reporting Initiative (GRI 3.1); however, Russian Grids has plans for the transition to the fourth generation of the GRI Guidelines, G4.

The priority issues covered by this social report – customer relations, innovation policy, and occupational and environmental safety – are the elaboration of and addition to the subjects of the Company's previous social reports,

showing changes in its corporate social and environmental policies.

Traditionally, the Company's management focuses its attention on social and personnel policies. The 2013 report discloses the basic principles and mechanisms of the Company's personnel policy, shows the development of motivation programs and social guaranties provided for employees (see paragraphs 9.1–9.5). Specifically, it is a major achievement that the average wages and salaries in the electric grid sector in 2013 traditionally exceeded the average amount of labor compensation in Russia.

According to the non-financial report released by Russian Grids, the Company's social policy places particular emphasis on cooperation with educational establishments (see paragraph 9.7) to meet its demand for young professionals. For instance, systematic efforts in cooperating with higher education institutions resulted in Russian Grids's and its SDCs' hiring more than 600 graduates in the reporting period. Undoubtedly, such results deserve public acclaim. To disclose more information on this matter, it is desirable, however, that the next report cover cooperation between the Company and researchers and experts from partner universities and describe in more detail how the Company supports students at energy-related universities and carries out its scholarship programs.

Overall, the 2013 non-financial report of Russian Grids can be regarded as a major step forward in promoting the corporate social responsibility and sustainability system of the Company. For further improvement in its non-financial reporting, it is recommended the Company also report its social and environmental plans and prospects for the following reporting period.

VASILY PUGACHEV

Doctor of Science (Philosophy), Professor, Head of Human Resources Management, Faculty of Public Administration, Lomonosov Moscow State University. Honored Professor of MSU

This report covers an important period in the history of the Russian electric grid sector. The year 2013 witnessed the approval of the Company's five-year development strategy and saw significant accomplishments in such priority areas as the affordability and quality of services and the transparency of relations between the Company and its customers.

The main operating results of Russian Grids in the reporting period reflect the Company's commitment to sustainability and its efforts to be oriented as much as possible to the customer's needs. The report will allow the reader to see three key areas where the Company took major steps forward in 2013: customer relations, innovation, and environmental policy. These areas are consistent with the priorities of the approved Strategy for Development of the Electric Grid Sector, which bears out the Company's real notable achievements in working toward its declared goals and proves the high quality of corporate governance.

Russian Grids carried out systematic measures to improve the quality and affordability of energy infrastructure, which contributed substantially to Russia's higher position in the World Bank's Doing Business rankings in 2013. It is also noteworthy that the Company is far from resting on its laurels and continues to put forward and implement new initiatives in customer relations. Specifically, work started in 2013 on forming councils of customers of Russian Grids and its SDCs.

Russian Grids management's focus on enhancing the quality and transparency of services and activities was truly appreciated in the reporting period. In the National Procurement Transparency Rating of Contracting Public Entities, Russian Grids received the highest award, "Guaranteed Transparency". In the professional contest "Leader in Competitive Procurement", Russian Grids was recognized as "Company of the Year in Competitive Procurement" and was awarded in the category "Procurement Transparency".

An important event in innovation policy was the formulation of the Innovative Development, Energy Conservation, and Energy Efficiency Policy and the formation of the Scientific and Technical Council of Russian Grids. Additionally, the Design and Test Field for Intellectual Power System with an Actively Adaptive Grid (IPS AAG) Solutions and the IPS AAG laboratory were set up, and the Digital Substation Test Field came into operation in 2013.

Compared with the previous publications, this report discloses more information concerning the Company's policy on environmental safety and environmental protection measures. The report features the wider scope of published information on environmental performance indicators. For the first time, the Company's efforts were described in detail in relation to resource conservation and energy efficiency enhancement.

Overall, this report makes it possible to gain a comprehensive understanding of the goals and results of Russian Grids as a socially responsible company that not only declares high social responsibility but also achieves high socially important results in its activities. I would like to encourage Russian Grids to ensure that its declared goals will continue to accord with its practices and I wish the Company every success in balancing its commercial interests with the public's needs for reliable and affordable services.

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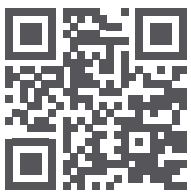

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