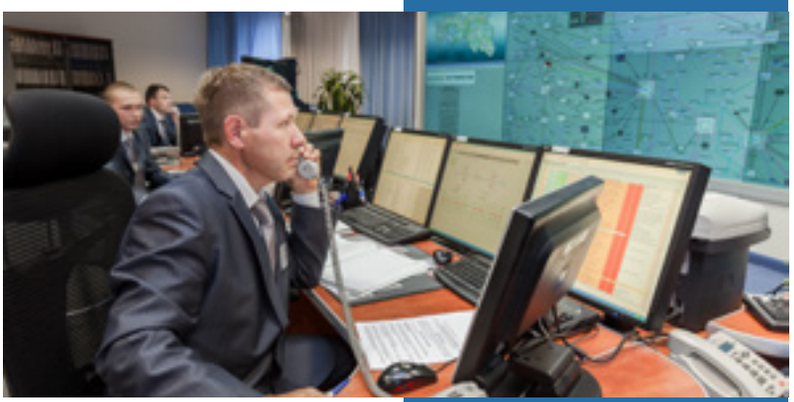
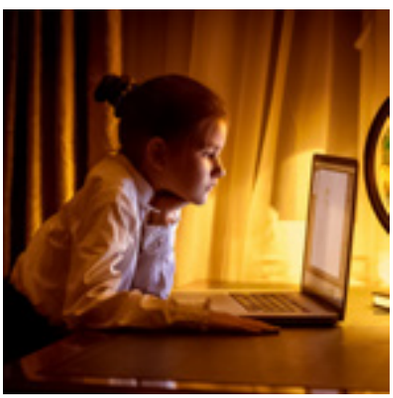
ROSSETI

IDGC OF CENTRE





ANNUAL REPORT

2013

Preliminary approval
by the IDGC of Centre, JSC Board of Directors on April 28, 2014
Minutes dd. April 30, 2014 No. 10/14

ANNUAL REPORT OF JOINT STOCK COMPANY INTERREGIONAL DISTRIBUTION GRID COMPANY OF CENTRE FOR 2013

OLEG YURYEVICH ISAEV
General Director
IDGC of Centre, JSC

LYUDMILA ALEXEYEVNA SKLYAROVA
Chief Accountant –
Head of Accounting and
Tax Reporting Department
IDGC of Centre, JSC

Disclaimer

This annual report of IDGC of Centre, JSC (hereinafter - IDGC of Centre, the Company) for 2013 (hereinafter - the Annual Report) was prepared based on the information available to the Company at the time the report was compiled.
This Annual Report contains information on Company operating results for 2013 and forecast indicators, statements of intent, opinions or current expectations pertaining to operating results, financial standing, liquidity, growth prospects, strategies, as well as growth in the industry in which the Company operates. Certain risks and uncertainties are inherent to such forecasts due to the nature of these forecasts, since they concern events and depend on circumstances that may or may not occur in the future.
Words such as intends, aims, expects, assesses, plans, considers, assumes, may, should, will, continues, and similar expressions generally indicate the forecast nature of the statement and may suggest the risk that said events and actions may not be realized depending on various factors.
The Company cautions that such forecast statements do not constitute a guarantee of future indicators. The Company's actual operating results, its financial position and liquidity, and the growth of the industry in which it operates, may substantially differ from the forecasts statements contained in this document. Furthermore, even if the indicators provided here should correspond to the forecasts made in this report, such results and events are not an indicator that similar results and events will occur in the future.
The Company provides no explicit or implied assurances or guarantees and shall bear no liability in the event individuals or corporate entities incur any losses as a result of acting on the forecast statements of this Annual Report, for any reason, directly or indirectly. These individuals and corporate entities should not fully rely on the forecasts in this document, since they do not represent the only possible scenario future events may follow.
Except for cases stipulated by the laws of the Russian Federation, the Company assumes no obligations to review or confirm expectations or estimates, or to publish updated and adjusted forecasts presented in this Annual Report due to subsequent events or the receipt of new information.
All information on employees of the Company's management and auditing departments, members of the committees of the Board of Directors and the corporate secretary is provided in this Annual Report in accordance with current laws on personal data.

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OPERATING RESULTS

CORPORATE GOVERNANCE

SECURITIES

This Annual Report also available
http://report2013en.mrsk-1.ru/

FINANCIALS

INVESTMENT

INNOVATIVE DEVELOPMENT AND TECHNOLOGY

INTERNAL AUDIT AND RISK MANAGEMENT

SOCIAL RESPONSIBILITY

PROCUREMENT

APPENDICES are stated in a separate file:

IDGC OF CENTER PERFOMANCE IN 2013

92.9 +33.9%*
Revenues, bln RUB

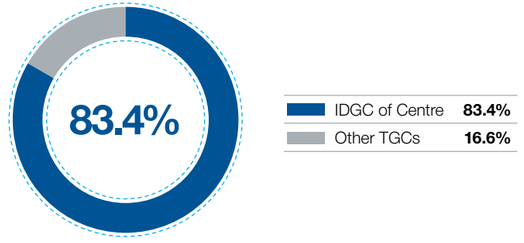
9.16% -0,37 p.p.
Electricity loss

11.5 -6.3%
EBITDA, bln RUB

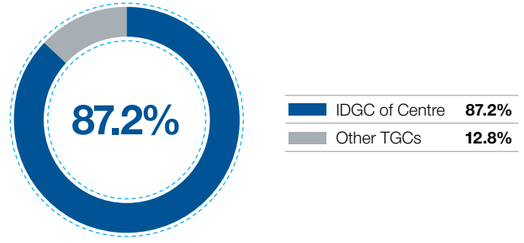
55.2 +0.2%
Joint operation productive supply, bln kWh

* Hereinafter – the deviation from the 2012

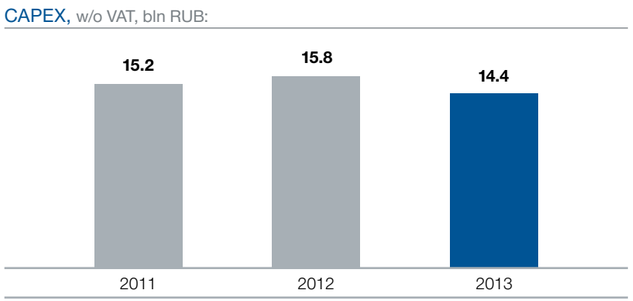
POWER TRANSMISSION MARKET SHARE, %:



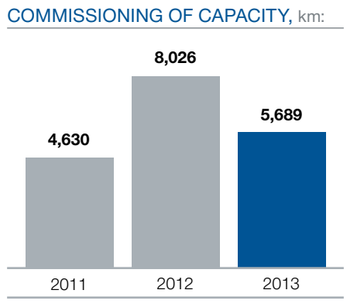
GRID CONNECTION MARKET SHARE, %:



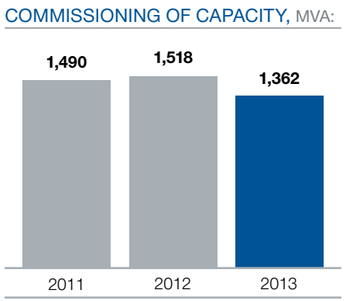
CAPEX, w/o VAT, bln RUB:



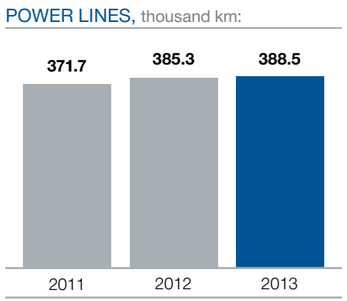
COMMISSIONING OF CAPACITY, km:



COMMISSIONING OF CAPACITY, MVA:



POWER LINES, thousand km:



9.3 -62.2%
Capitalization, bln RUB

BB Outlook "Stable"
S & P credit rating

A1 Ordinary shares
Moscow Exchange listing

A2 Traded bonds
Moscow Exchange listing

NRCG 7+
Corporate Governance Rating

ABOUT COMPANY

IDGC of Centre is the largest infrastructure company, providing power for 11 regions of the Central Russia

01

COMPANY AT A GLANCE

IDGC of Centre is the leading power grid company in Russia. We carry on business in 11 regions of Central Russia and supply electricity to the public, major industrial companies, transport and agricultural enterprises and social facilities, and connect new consumers to the power grids.

The Company was formed in 2004 under the reform of the Russian energy sector and the division of power companies according to the nature of their operations and their subsequent interregional connection. Today IDGC of Centre is one of 11 interregional grid companies.

The Company operates in the regions with prospects of steady economic growth, which is an undisputable advantage against competitors. The client portfolio includes such companies as Oskol Electrometallurgical Works, NLMK, Mikhailovsky Mining and Refining Works and several other enterprises of strategic significance.

OUR MISSON

The Company's mission is to ensure reliable and quality energy supply to meet the growing needs of the economy and social sector at tariffs that are economically justifiable for the services provided

Starting from day one, the Company is striving to operate in accordance with its mission and expectations of the major market participants:

- as far as investors are concerned, the Company is an investment instrument aimed at ensuring the return, security, profitability and liquidity of investments;
- as far as consumers are concerned we are the Company that provides high quality services, secure power delivery, modern and transparent technological connection to power grids;
- as far as the regions and local authorities are concerned, the Company satisfies business demand for power transmission; it is a reliable partner of the Russian territorial units' governments when it comes to planning and implementing regional programs of local development, an honest taxpayer and employer;
- as far as the Company's employees are concerned, the Company is a responsible employer and an efficiently organized business with a transparent and clear corporate management system, which allows employees to uncover their potential.

The corporate structure of IDGC of Centre includes eleven branches located in the Belgorod, Bryansk, Voronezh, Kostroma, Kursk, Lipetsk, Orel, Smolensk, Tver, Tambov and Yaroslavl Regions. IDGC of Centre Group consists of five companies: JSC Yargorelektroset, JSC Yaroslavl Power Grid Company (JSC YarESK) and CJSC Innovation and Energy efficiency Centre in Yaroslavl (JSC TSIEEF), JSC Energetik in Tambov and JSC Energy Service Company in Lipetsk.

JSC Russian Grids[1] is the controlling shareholder in the Company with 50.23% of IDGC of Centre charter capital.

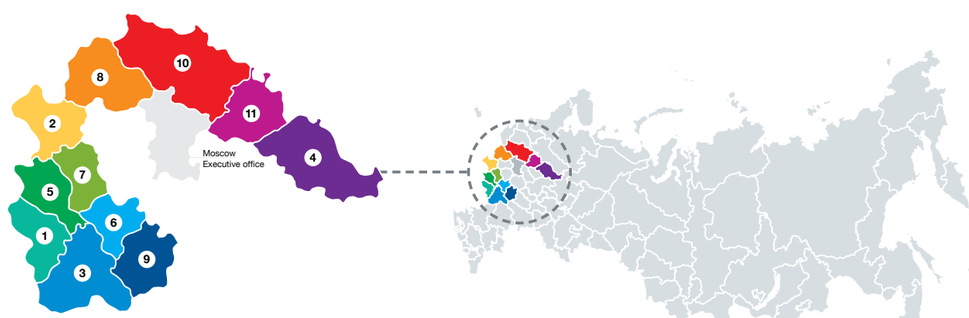
11 branches

are included in the corporate structure of IDGC of Centre

50.23%

share of JSC Russian Grids[1] in IDGC of Centre charter capital

1 Joint-Stock Company Interregional Distribution Grid Company Holding (JSC IDGC Holding) changed its name on April 4, 2013 to Joint Stock Company Russian Grids (JSC Russian Grids)



1 Belgorodenergo
2 Bryanskenergo
3 Voronezhenergo
4 Kostromaenergo
5 Kurskenergo
6 Lipetskenergo
7 Orelenergo
8 Smolenskenergo
9 Tverenergo
10 Tambovenergo
11 Yarenergo

GROUP BUSINESS STRUCTURE OF IDGC OF CENTRE:

IDGC OF CENTRE

BRANCHES

- Belgorodenergo
- Bryanskenergo
- Voronezhenergo
- Kostromaenergo
- Kurskenergo
- Lipetskenergo
- Orelenergo
- Smolenskenergo
- Tambovenergo
- Tverenergo
- Yarenergo

SUBSIDIARIES (100%)

JSC Energetik

JSC YarESK (51%)

A territorial grid company engaged in power transmission in the Yaroslavl Region

JSC TSIEEF (100%)

R&D, energy efficiency services

JSC Yargorelektroset

One of the largest TGCs in the Central Federal District. IDGC of Centre owns more than 90% of the Yaroslavl Region grid complex after purchase of 100% of Company shares

JSC Energy Service Company

Energy conservation and efficiency services, other energy services

The services of power transmission and distribution in the regions where IDGC of Centre operates are rendered by other territorial grid companies (TGC) as well. Nevertheless, IDGC of Centre is the leading service provider as far as service volumes are concerned, and all Company branches dominate in their regions. Thus, it is safe to say that no competition exists in the areas where the Company operates. However, major TGC providing similar services should be pointed out.

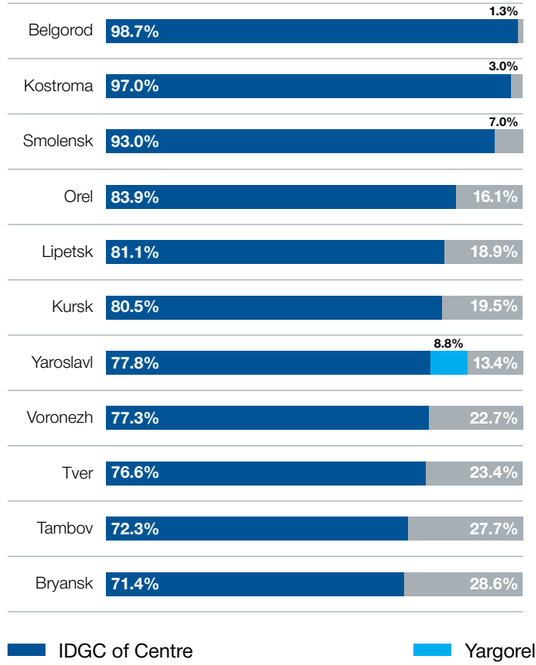
MAJOR COMPETITORS:

Bryanskoblelektro	MUE Voronezh Municipal Grid (Voronezh gorelektroset)	Kursk Power Grids (Kursk elektroseti)	Lipetsk Municipal Power Company	Oreloblenergo
Tambov Grid Company	Tambov Utility Systems	MUE Tvergorelectro	Rybinsk Municipal Power Grid	Tveroblelektro

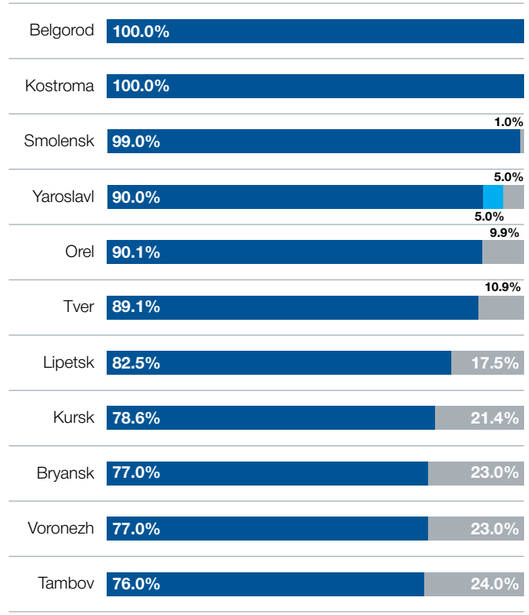
IDGC of Centre controls 83.4% of the power transmission market in monetary terms in the regions in which its 11 branches operate, and 84.3% including JSC Yargorelektroset. Furthermore, the Company leads other interregional distribution grid companies in terms of revenue received from power transmission services.

We estimate that IDGC of Centre controls 87.2% of the market for grid connection, with 100% of this market in Belgorod and Kostroma regions, and 99% in Smolensk region. All other branches compete with other territorial grid companies providing similar services in grid connection.

MARKET SHARE OF COMPANY BRANCHES IN 2013 POWER TRANSMISSION MARKET, %:



MARKET SHARE OF COMPANY BRANCHES IN 2013 GRID CONNECTION MARKET, %:



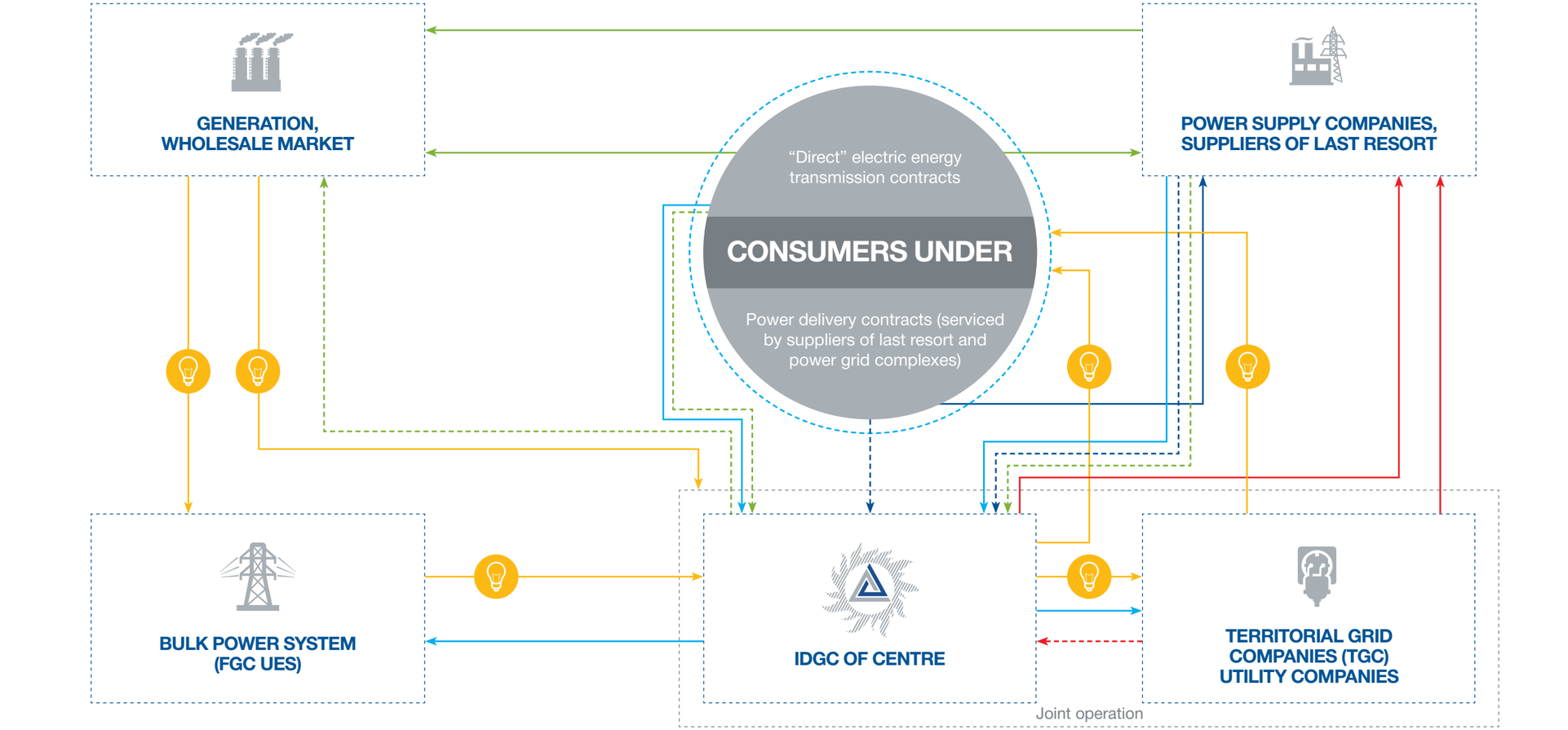
In 2013, IDGC of Centre acquired the status of a supplier of last resort in the several regions, namely in the Bryansk, Kursk, Orel, Tver and Smolensk Regions. The resolution was passed by the Russian Ministry of Energy after revoking the wholesaler status of several power supplying companies that used to operate in the aforementioned regions. The Company's "taking over" the functions of a supplier of last resort encompassed several steps, and we have successfully carried out a set of organizational measures.

Acting as a supplier of last resort allowed us to increase the Company's operating income by the end of 2013.

Besides core operations, IDGC of Centre has successfully been carrying out additional operations and extending the portfolio of its services for several years. Additional services rendered by the Company today is a separate business process aimed at designing, constructing, maintaining and repairing power facilities, which allows the customers to receive a full spectrum of services and the Company to obtain extra income due the fact that all the services are being rendered on a commercial basis.

02

COMPANY BUSINESS MODEL



In 2008 IDGC of Centre introduced throughout its territory a new system of payment for power transmission services rendered to consumers.

The new system established unified joint-operation tariffs for power transmission for all consumers (suppliers of last resort, utilities, customers with "direct contracts").

The IDGC of Centre branches in all regions were assigned the functions of "joint-operation keepers" and collect centralized payments for power transmission from all consumers at set tariffs regardless of which grid is actually supplying the power.

The Company branches, in turn, make mutual settlements with the territorial grid companies (TGC) in each region with regard to the electricity actually supplied in TGC grids at tariffs set on a per case basis for the relevant TGC.

In 2013, several IDGC of Centre branches were assigned the status of a supplier of last resort. This allowed the Company to make payments to the electric energy and capacity wholesalers in full and on time, reduce electricity losses and consumer debt.

KEY INDICATORS

FINANCIAL INDICATORS:

Indicator		2011	2012	2013	Change 2013/2012, %
Revenues, bln RUB	RAS	68.1	69.4	92.9	33.9%
	IFRS[2]	69.0	70.0	93.3	33.3%
EBITDA, bln RUB	RAS	13.7	12.3	11.5	-6.3%
	IFRS	14.8	15.2	11.3	-25.6%
Net profit, bln RUB	RAS	5.2	3.5	0.3	-91.4%
	IFRS	5.5	4.6	0.3	-94.2%
Net asset value (as of December 31), bln RUB	RAS	50.5	53.5	53.0	-0.9%
	IFRS	38.6	42.6	41.8	-2.1%
ROE, %	RAS	10.3	6.4	0.6	-5.8 ppt
	IFRS	14.4	10.8	0.6	-10.2 ppt
Net profit margin, %	RAS	7.6	5.0	0.3	-4.7 ppt
	IFRS	8.0	6.6	0.3	-6.3 ppt
EBITDA margin, %	RAS	20.1	17.7	12.4	-5.3 ppt
	IFRS	21.4	21.8	12.1	-9.7 ppt

OPERATING INDICATORS:

Indicator	2011	2012	2013	Change 2013/2012, %
Productive supply (supply from the grid to consumers and co-operating TGC), bln kWh	56.7	57.9	57.8	-0.2%
Energy losses, %	9.93	9.53	9.16	-0.37 ppt
Length of power lines along ROW, thous. km	371.7	385.3	388.5	0.8%
Substation capacity, MVA*:				
35 — 110 kV	32,781.2	32,747.0	33,226.1	1.5%
6 — 35/0,4 kV	16,113.4	16,775.3	17,486.4	4.2%
Added capacity under grid connection agreements, MW	946.1	853.9	1,018.5	19.3%

* Including leasing and rent.

ADDITIONAL INFORMATION:

Indicator	2011	2012	2013	Change 2013/2012, %
Capitalization, bln RUB	25.2	24.6	9.3	-62.2%
Number of shareholders	14,413	14,267	14,189	-0.5%
Staff listing on 31.12	30,977	30,333	32,721	7.9%

2 Performance indicators under IFRS for 2012 have been adjusted due to the application of IFRS (IAS) 19 (rev. 2011) regarding its pension plan with the established payments. Performance results for 2011 are stated in accordance with the consolidated financial statements compiled under the IFRS for 2011.

IDGC CURRENTLY OPERATES[3]:

2,344
Substations 35-110 kV

93,648
Transformer substations 6-10/0.4 kV and 6-10 kV distribution centers

375,252 km
Length of overhead lines (along the ROW)

33,226 MVA
Total capacity of substations 35-110 kV

17,486 MVA
Total capacity of transformer substations 6-10/0.4 kV and 6-10 kV distribution centers

13,205 km
Length of cable lines

DESCRIPTION OF IDGC OF CENTRE BRANCHES AS OF DECEMBER 31, 2013:

Branch	Length of power lines (ROW), thous km	Length of cables, thous km	Number of 110 kV and 35 kV substations	Substation capacity, MVA	Productive supply, bn kWh	Transformer Substation volume, MW	Grid connections, CAPEX, mln RUB
Belgorodenergo	42.1	6.7	178	7.3	11.1	217.2	4,176
Bryanskenergo	25.1	0.1	143	3.1	3.9	38.4	464
Voronezhenergo	51.2	0.2	294	6.4	8.0	185.3	1,400
Kostromaenergo	23.9	1.5	165	3.2	2.5	45.7	895
Kurskenergo	35.6	0.3	284	5.2	5.3	48.2	949
Lipetskenergo	30.7	1.0	198	4.5	6.8	131.5	1,768
Orelenergo	28.1	0.3	140	2.6	2.2	48.9	572
Smolenskenergo	38.1	2.0	253	4.8	3.5	92.9	1,141
Tverenergo	26.6	0.1	207	3.5	2.9	48.7	498
Tambovenergo	47.0	0.5	311	5.8	4.8	76.8	1,356
Yarenergo	26.8	0.5	171	4.3	7.0	85.0	1,206

3 Including leasing and rent.

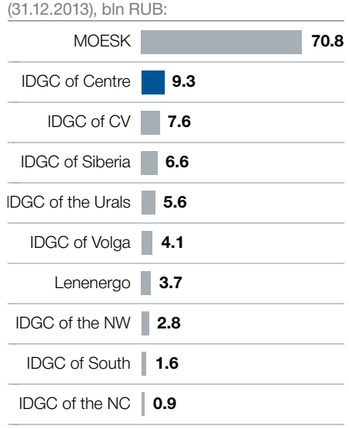
BENCHMARK OF IDGC OF CENTRE AND ITS DOMESTIC PEERS IN 2013:

2nd number

IDGC of Centre is the second by a number of indicators in the distribution grid sector

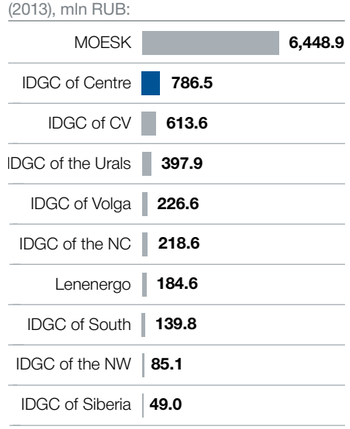
CAPITALIZATION

(31.12.2013), bln RUB:



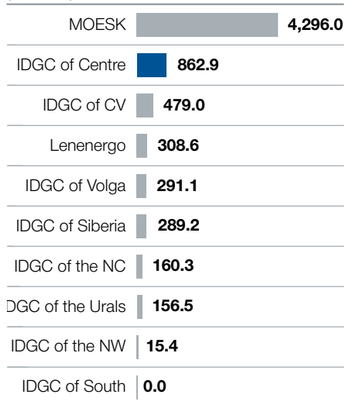
TRADING VOLUME AT MOEX

(2013), mln RUB:



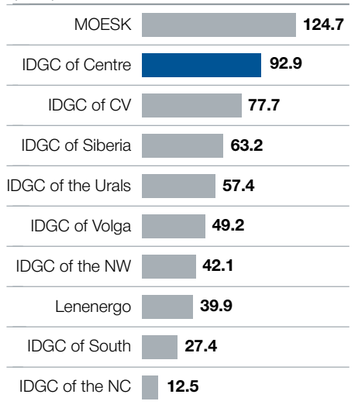
DIVIDENDS

(for 2012), mln RUB:



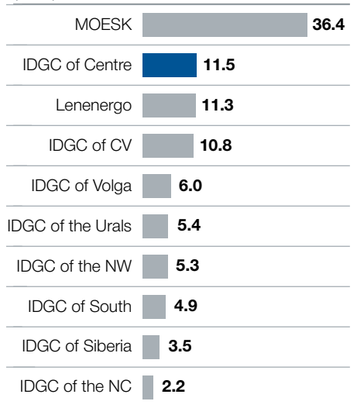
REVENUES UNDER RAS

(2013), bln RUB:



EBITDA* UNDER RAS

(2013), bln RUB:



Sources: www.moex.ru, Bloomberg, RAS statements of grid companies.

* Calculation of IDGC of Centre on the basis of the formula:net profit + income tax and other similar amounts due + interest payable – interest receivable + depreciation

RATINGS AND CERTIFICATES

BB "Stable" Outlook

In 2013, Standard&Poor's rating agency upgraded the credit rating of IDGC of Centre by one point to "BB" with a "Stable" outlook.

S&P noted the Company's strong reliability and stable financial standing for the long-term outlook. The key factors taken into account in the decision to upgrade the rating were:

- Sufficient liquidity;
- Acceptable debt burden;
- The Company's dominant position on the market in its areas of presence;
- Stable cash flow on core activity;
- Favorable debt redemption schedule.

The "Stable" outlook shows that the rating agency believes the Company will maintain a moderate debt burden and acceptable level of liquidity on a regular basis. [4]

The Company has recorded its credit rating history since 2009.

NRCG 7+

IDGC of Centre is one of the few companies of the sector to receive the NRCG 7+ (Developed Corporate Governance Practices) national corporate governance rating assigned by the Russian Institute of Directors.

Rating agency analysts assigned the NRCG 7+ rating based on all of the events, achievements, and positive aspects of the Company's corporate management system:

- Observance and strong protection of shareholder rights;
- Equal representation of all shareholders in the Board of Directors, its independence from Company management and its expanded powers to participate in decisions regarding important transactions;
- The Company's clear information policy and high level of information disclosure;
- The Company's social responsibility and consideration of interests of related parties.

In 2013, IDGC of Centre confirmed its compliance with the ISO 9001:2008 standard after auditing its quality management system.

The British Standards Institution (BSI) analysts conducted a successful review of the Company's core business processes, and its results allowed the Company to obtain a positive expert opinion.

IDGC OF CENTRE INVESTMENT HIGHLIGHTS IN 2013

IDGC of Centre is one of the leading companies in the power industry and is in the list of distribution grid companies with investment appeal. The key factors of the Company's investment appeal are:

1 Presence in 11 regions of Central Russia with steady economic growth potential

2 Innovation leadership in the sector

3 Stable financial position

4 Approved dividend policy and favorable dividend history

5 Corporate governance rating of NRCG 7+, the highest among domestic peers

6 Standard & Poor's rating «BB» with a "Stable" outlook

7 Development of additional energy services

8 Extra revenue from fulfilling the functions of a supplier of last resort

4 The rating agency changed its outlook from "Stable" to "Negative" in March 2014 due to the changes in the outlook for the Russian Federation.

MILESTONES IN 2013

JANUARY

IDGC of Centre received an energy certificate after completing a mandatory energy audit

FEBRUARY

IDGC of Centre proceeded to operate as a supplier of last resort in the Bryansk, Orel and Kursk Regions by virtue of the resolution passed by the Russian Ministry of Energy.

Standard & Poor`s agency increased the Company's rating from "BB-" to "BB" with a "Stable" outlook

MARCH

A new Grid Control Centre in Lipetsk, one of the most state-of-the-art divisions of the Company, was opened

APRIL

The Company proceeded to operate as a supplier of last resort in the Tver Region on the basis of the relevant resolution of the Russian Ministry of Energy

MAY

Oleg Isaev was approved as General Director of IDGC of Centre.

The National Rating Agency increased the individual credit rating of IDGC of Centre from "AA-" to "AA" (Very High Credit Quality, Level 2).

The first coupon payment on Series BO-01 traded certified interest-bearing non-convertible bearer bonds in the amount of 178.5 mln RUB was made

JUNE

The Annual Shareholders' Meeting was held: the annual report was approved, the dividends were on common shares were announced, the new members of the Company's Board of Directors were elected, and the Company's auditor for 2013 was approved.

The Federal Commercial Court of the Moscow District cancelled the ruling of the Moscow Commercial Court and the resolution of the Ninth Commercial Court of Appeal regarding the legal dispute with NLMK under the Last Mile contract.

The Company prepared the issue of Series BO-02 – BO-6 bonds to the total amount of 25 bln RUB with a maturity period of 10 years

JULY

IDGC of Centre completed the construction and commissioned the 110 kV Novoselki substation in Yaroslavl

IDGC of Centre successfully passed the recertification audit and satisfied the requirements of the ISO: 9001:2008 international standard

AUGUST

A Board of Service Consumers was created at IDGC of Centre – an expert body representing the interests of all consumer groups, public unions and business community associations

The Company confirmed the NRCG 7+ (Developed Corporate Governance Practices) national corporate governance rating.

IDGC of Centre paid dividends on common shares for 2012 in the amount of 863 mln RUB, which constituted 25% of the net profit under RAS

OCTOBER

The Company proceeded to operate as a supplier of last resort in the Smolensk Region

Grid connection to the power grids of the Muchkapsky Seed Factory in the Tambov Region - a unique agricultural facility second to none in Russia - was completed

NOVEMBER

IDGC of Centre received certification of preparedness for winter after successfully completing preparations for peak loads during fall-winter of 2013/2014.

The second coupon payment on Series BO-01 traded certified interest-bearing non-convertible bearer bonds in the amount of 178.5 mln RUB was made.

The first meeting in praesentia of the IDGC of Centre Board of Service Consumers was held

DECEMBER

An open meeting of the Management Board of IDGC of Centre devoted to the issues of increasing energy efficiency was held.

The Company completed the reconstruction of the 110 kV Gorshechnoye substation – a strategic facility of the Kursk Region.

Comprehensive reconstruction of the 35/10 kV Zadonsk-Selskaya substation was completed, the capacity of the substation increasing from 2.5 to 4 MVA

EVENTS AFTER THE REPORTING DATE

FEBRUARY

The first meeting of the regional Board of Consumers was held at IDGC of Centre.

The functions of a supplier of last resort that the Company fulfilled in the Orel Region were transferred to its subsidiary JSC Inter RAO UES according to the resolution of the Russian Ministry of Energy.

MARCH

The Company published its RAS financial statements for 2013: the sales volume grew by 22.3%, energy losses decreased by 0.37%.

The IDGC of Centre management took part in the "Utilities Day" conference of ATON Investment Company.

Standard & Poor`s rating agency amended IDGC of Centre's credit rating outlook to "Negative" after amending the rating outlook for the Russian Federation.

APRIL

The Company published its IFRS consolidated financial statements for 2013: the revenue grew by 33.3%.

Following the resolution of the Russian Ministry of Energy, IDGC of Centre passed the functions of a supplier of last resort in the Kursk and Tver Regions to JSC AtomEnergoSbyt.

05

ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS AND INVESTORS,

2013 became the year of new challenges and new opportunities for IDGC of Centre. Despite the decline of the whole power sector in the previous year, Company managed to maintain the its primary direction of development aimed at implementing the strategy of the power grid complex in Russia. All the Company's efforts were directed towards the provision of reliable, high quality and affordable power supply to the end customers.

Speaking of results achieved in the previous year, I would like to mention a significant event, which influenced all the Company's operations. By virtue of resolutions passed by the Ministry of Energy, IDGC of Centre became a supplier of last resort in five regions of its operation. Due to professional approach of employees the Company managed to "master" this new field in a very short time, transfer electricity payments from the end customers to the generating companies and prevent the growth of liabilities to the wholesale electrical energy and capacity markets.

The Company's efforts resulted in the increase of the overall revenues by 16.0 bln RUB (17.2%), reduction of the consumer debt for electricity transmission services by 2.1 bln RUB and decrease of electricity losses by 0.37 ppt – 9.16% of the supply to the grid.

Changes to the tariff policy introduced by the state also became one of the key events of the previous year.

A target was set to sustain economic growth by reducing the rates on services provided by natural monopolies. In our opinion, this decision fully complies with the approved strategy of the development of the power grid complex. IDGC of Centre will continue to steadily fulfill its strategic goals in 2014, in particular, to increase efficiency of operations. The Company will also draw particular attention to increasing other revenues in order to diversify income.

In 2013, the Company paid the highest dividend in its history, which amounted to 863 mln RUB. 25% of the net profit in 2012 was paid to shareholders. I believe that the positive history of dividend payments should become an additional factor in increasing investors' interest to the Company's shares.

In 2014 the Company is facing important tasks aimed at achieving the strategic goals. The work will be continued on taking measures for improvement in operational efficiency and increasing the reliability, quality and security of supply. The Company will continue to implement the program of consolidation of grid assets in accordance with the plan of the investment program, achieving a regular decrease in the number of the territorial grid companies in the regions of presence. IDGC of Centre has all the necessary resources to achieve these goals, and there is no doubt that we will succeed.

In conclusion, I would like to thank the management and all employees of the Company for their hard work, professionalism and achieving significant results in the area of providing reliable and high-quality services to the Company's customers. I believe that the direction aimed at increasing the effectiveness of the Company's performance that we took will contribute to the development of the Company and the growth of its shareholder value.

ARKHIPOV SERGEY ALEXANDROVICH
Chairman of the Board of Directors

ADDRESS OF THE GENERAL DIRECTOR

DEAR SHAREHOLDERS AND INVESTORS,

The past year proved to be a complicated year both for the Russian power industry in general and for the Company in particular, but we managed to achieve all the Company's goals. Thanks to the concerted efforts of all IDGC of Centre's employees, the Company managed to overcome climate abnormalities, tariff restrictions and new challenges, which came with the new functions of a supplier of last resort in the Orel, Bryansk, Kursk, Tver and Smolensk Regions. We were able to organize not only the process of transferring all the consumers in these regions on account of IDGC of Centre as new supplier of last resort, but also to improve the accessibility of services for clients, which resulted in additional economic effect.

The Company's revenues in 2013 under RAS grew by 33.9% and reached 92.9 bln RUB, while the sales revenue increased by 22.3% to 11.5 bln RUB. Operation as a supplier of last resort brought the Company 0.4 bln RUB of net profit.

Acting in this new capacity also helped the Company to increase the paument discipline among the customers and reduce electricity losses.

Herewith, the amount of electricity transmitted through the points of delivery to end customers ("joint operation" net electricity supply) grew to 55.2 bln kWh, despite a general decline of power consumption in the country.

The share of IDGC of Centre on the electricity transmission market in the regions where the Company operates amounted to 83.4%[5] in monetary terms, and the Company's strategic goal is to continue increasing this figure in future.

Today the Company faces an ambitious challenge of reducing general and administrative expenses by 15% in 2014. The results achieved in reporting year demonstrate substantial improvement in this direction. Improvement of performance and cost optimization are not just idle words for us. The Company implemented the Cost Management Program, which helped the Company save 1.7 bln RUB last year.

Despite tariff restrictions and "picking-up" the functions of supplier of last resort, which significantly affected the financial results, the Company retained profitability and financial sustainability. It is worth noting that the Company also managed to reduce expenses on borrowing funds in 2013 – the average weighed borrowing rate during the year dropped from 8.7% to 8.2%.

Remaining the key infrastructure company in the regions of its operation, IDGC of Centre implements significant social-economic investment projects, thus eliminating the power shortage in the industrially developed regions, supplying power to new districts and increasing reliability and quality of power supply.

5 Calculation is based on revenue received for services on electricity transmission.

In 2013 additional 1,362 MVA of power was commissioned and 5,689 km of power lines were constructed. The Company increases its capacity year by year maintaining the leading position among other distribution companies in terms of its grid.

The Company is committed to continuous technological development, which allows to introduce modern equipment and apply innovative approaches to solving operating tasks. In December 2013, the Board of Directors of IDGC of Centre approved the Regulations on the Unified Technical Policy within the Power Grid Complex. The approved policy draws the Company's attention to the most advanced technical solutions, sets the list and limits of application of technical solutions, equipment and technologies aimed at increasing the technical level of transmission, conversion and distribution of electrical energy and the processes of management, operation and development of the IDGC of Centre power grid complex.

The Company's commitment to high corporate governance standards remains unchanged: it confirmed once again its National Corporate Governance Rating at the level of 7+ (Developed Corporate Governance Practice) assigned by the Russian Institute of Directors Non-profit Partnership. The Company received a high score from the investment community in terms of information transparency and interaction with shareholders and investors.

Summarizing all of the above, I would like to add that the events of 2013 made us stronger, increased the Company's professionalism and opened new opportunities for further growth. I am sure that each consumer, each employee and each shareholder will soon see for themselves the positive effect of changes that the Company is undergoing.

ISAEV
OLEG YURYEVICH
General Director

STRATEGIC AREAS OF GROWTH

Strategic priorities of IDGC of Centre are based on Strategy for the Russian Power Grid Complex until 2030

STRATEGIC GOALS

- The Government of the Russian Federation approved the Strategy for the Russian Power Grid Complex until 2030.
- The Company carried out work in key areas approved by the Board of Directors.
- A new system of key performance indicators (KPI) for the Company and its management was implemented in 2013: the number of operating and financial indicators including indicative KPI has significantly grown.

Strategy for the Russian Power Grid Complex

In April 2013, the Government of the Russian Federation approved the Strategy for the Russian Power Grid Complex until 2030 (hereinafter the “PGC Strategy”) (Decree No. 511-p dd. April 03, 2013).

The PRC Strategy directs particular attention to the operations of JSC Russian Grids and its subsidiaries, which control around 70% of the distribution grids and 90% of transmission grids in Russia.

According to the PGC Strategy, the main goal of the power grid complex is to ensure secure, high quality and available power supply to the Russian consumers in the long term. This should be done through shaping the grid infrastructure of the highest possible efficiency in line with international standards, with the power transmission tariffs ensuring an acceptable level of expenses on electric power for the Russian economy and the branch’s investment appeal for an adequate return on capital.

Targets for the power grid complex established by the PGC Strategy are:

1. To ensure reliability and quality of power supply on a level that satisfies consumer demand.
2. To increase safety of power supply, in particular, to reduce the number of accidents, including unregistered accidents.
3. To reduce the number of free power transfer zones.
4. To increase efficiency of the power grid complex, in particular:
   - To increase capacity load;
   - To decrease specific investment expenses;
   - To lower operating expenses;
   - To reduce the amount of loss;
   - To provide for competitive tariffs for business;
   - To decrease cross-subsidization as far as the grid tariff is concerned;
   - To reduce the number of companies that do not satisfy the requirements for a qualified grid enterprise, in particular, requirements for the technical availability of reserves necessary to cope with failures, and staff qualification requirements.

The key parameters of IDGC of Centre strategic development as a part of the Russian power distribution grid complex are laid down in the Energy Strategy-2030 approved by the Government of the Russian Federation in 2009, and in the PGC Strategy for the period until 2030, which was approved in April 2013 and covers the core activity of the power grid complex – i.e. transmission and distribution of electric power and the aspects of related activities, which are directly connected with such transmission and distribution (electrical energy generation and sale) in Russia.

2009 — **ENERGY STRATEGY-2030**

2013 — **PGC Strategy**

Strategic goals of IDGC of Centre

- To improve the reliability and quality of power supply to a level that satisfies consumer demand
- To increase the safety of power supply
- To increase the efficiency of the power grid complex
- To reduce the number of territorial grid companies

Our Strategic Goal

TO IMPROVE THE RELIABILITY AND QUALITY OF POWER SUPPLY

In order to achieve this goal, we have set the following targets:

- To implement the Reliability Program.
- To reduce grid deterioration.
- To introduce an asset management program.
- To create a single technical policy for the distribution grid complex.
- To improve the quality of consumer service

ACHIEVEMENTS 2013

- Positive dynamics of reliability indicators were achieved: the number of instances of switch failures in 2013 reduced by 30% vs. 2012. For details on grid reliability, please see page 109 of the Annual Report.
- The Regulation on the Technical Policy for the Power Grid Complex was approved by the Company's Board of Directors. For details on the Company's technical policy, please see page 108 of the Annual Report.
- A service for processing applications for grid connection through the Company's website was implemented with the possibility of online tracking of the application status.
- A Board of the IDGC of Centre Service Consumers was created. For details on the first meeting of the Board, please see page 70 of the Annual Report.

PLANS 2014

- To replace the equipment that is in unsuitable or unsatisfactory technical condition and outdated equipment.
- To install a modern quick-response protection system.
- To make available short (4-digit) telephone numbers for free calls from the JSC Rostelecom fixed line.
- To improve online services relating to electrical energy transmission and grid connection.

ACHIEVEMENTS 2013

› The number of accidents involving Company employees shrank by almost two times vs. 2012.
› The number of accidents involving third parties decreased by 14% in comparison with the previous year.

For details on occupational safety, please see page 182 of the Annual Report.

PLANS 2014

› To implement measures aimed at ensuring transport safety.
› To improve the system of on-site personnel training and incentives.
› To improve the system of operational and technological management.

Our Strategic Goal

TO INCREASE THE SAFETY OF POWER SUPPLY

In order to achieve this goal, we have set the following targets:

› To implement the Injury Risk Decrease Program for the Company's personnel.
› To implement a program aimed at reducing the injury risk of the third parties at Company facilities

Our Strategic Goal

TO INCREASE THE EFFICIENCY OF THE POWER GRID COMPLEX:

BOOSTING INVESTMENT EFFECTIVENESS

In order to achieve this goal, we have set the following targets:

- To improve returns on investment and lower its unit cost.
- To optimize project solutions and improve the quality of project implementation.
- To boost load on commissioned capacity.
- To increase transparency and effectiveness of procurement

ACHIEVEMENTS 2013

- A number of statutory documents were devised and effected in order to optimize investment related processes, in particular:
  - The Regulation on Investment Operations.
  - The Manual on Enlarged Indicators of Construction Cost of Substations and Power Lines.
  - The Instruction on Valuating Economic Effectiveness of Investment Projects.
  - A number of statutory documents were devised and effected in order to optimize procurement related processes, in particular:
  - The Regulation on Procurement of Goods and Services for the Needs of the Company.
- The load on newly commissioned capacities amounted to 40%, the growth vs. 2012 equaled 8 ppt (in accordance with the Load of Newly Commissioned Capacities KPI calculation method)

PLANS 2014

The investment program for 2014 encompasses financing in the following target areas (mln RUB including VAT):

- renovation of primary and secondary equipment – 12,340;
- creation of remote control and communication systems – 546;
- energy conservation and increase of energy efficiency – 303;
- creation of emergency and performance automation systems – 208;
- the amount of funds allocated for innovations – 31

Our Strategic Goal

TO INCREASE THE EFFICIENCY OF THE POWER GRID COMPLEX:
ENERGY CONSERVATION AND LOSS REDUCTION

In order to achieve this goal, we have set the following targets:

- To implement a system of prospective development of electric power metering systems on the electric power retail market.
- To implement programs aimed at energy conservation and the increase of energy efficiency

ACHIEVEMENTS 2013

- Losses during supplies to the grid were reduced by 0.37% (0.3 bln kWh).
- The benefit from implementing the Program of Energy Conservation and Increasing Energy Efficiency amounted to 235 mln kWh (675 mln RUB).

For details on power losses and implementation of the Program of Power Conservation and Increase of Energy Efficiency, please see page 55 of the Annual Report.

PLANS 2014

To further implement the Program of Energy Conservation and Increasing of Energy Efficiency, in particular:

- To implement a system of development of electric power metering systems on the retail market using an investment program.
- To carry out technological measures (to replace wire with larger section/self-supporting insulated wire, to replace overloaded/underloaded transformers).
- To develop metering systems through energy service contracts.
- To switch transformers off during the time of reduced load on substations with two or more transformers.
- To level phase loads in 0.4 kV distribution grids.
- To create and automate reference and measuring complexes within the electrical energy metering system.

ACHIEVEMENTS 2013

- The program of repairs was compiled taking into consideration the priority of the facilities based on the information on the technical condition and risks.
- The aggregate economic benefit from implementing the cost management program aimed at optimizing the operating expenses and revealing additional sources of income amounted to 1.7 bln RUB in 2013 against the planned amount of 1.2 bln RUB.

PLANS 2014

To create a tool for modeling the scenario conditions of the process of planning and subsequent evaluation of several versions of the technical maintenance and repair program determining the expenses necessary to implement the annual technical maintenance and repair program and valuation of the target reliability indicators (a forecast model).

Our Strategic Goal

TO INCREASE THE EFFICIENCY OF THE POWER GRID COMPLEX:

INCREASE OF THE EFFICIENCY OF OPERATING EXPENSES

In order to achieve this goal, we have set the following targets:

- To optimize expenses on maintenance, operation and technological process management.
- To implement a cost management program

Our Strategic Goal

TO REDUCE THE NUMBER OF TGC ON THE TERRITORY WHERE THE COMPANY OPERATES

In order to achieve this goal, we have set the following targets:

- To implement the program of consolidating electrical grid assets

ACHIEVEMENTS 2013

The amount of consolidated electrical grid assets amounted to 3.3 thousand c.u.

PLANS 2014

To implement the program of consolidation as far as the acquisition is concerned in accordance with the investment program plan for the relevant period.

The Company's strategic priorities are based on the mission statement and take into account the features of internal and external environment, and we are able to achieve the goals set by making proper use of the Company's opportunities and strengths.

Opportunities
(external environment)

- Increase of the timeframe and reduction of the cost of borrowing funds for the Company by engaging long-term borrowed reserves.
- A unified policy with regard to the tariff setting.
- State policy aimed at increasing economic efficiency (as far as energy conservation and energy efficiency are concerned).
- An opportunity of expanding the market of (certain) additional electrical grid services, energy conservation services and billing services.
- Upgrade of technologies and production equipment on the market.
- Entering bond loans market.
- Approval of the Development Strategy of the Russian Electrical Grid Complex

Strengths
(internal environment)

- Company's monopoly (dominant position) in the regions where the Company operates.
- Company branches are the "joint operation keepers" in the regions.
- Extensive experience in the area of the electrical grid complex regarding the automation of the Company's core business processes.
- Strong financial stability of the Company.
- A high credit rating and positive credit history.
- A centralized system of planning and managing of the Company's cash flow.
- Centralization of primary procurement for the needs of the Company.
- A developed system of customer service centers.
- A high rating of corporate governance.
- Qualified technical engineering professionals
- A new improved KPI system for evaluating the performance of the Company's management.

02 KEY PERFORMANCE INDICATORS

Each year the Board of Directors of IDGC of Centre approves the key performance indicators (hereinafter – KPI) for the upcoming year. These KPI are set based on the following principles:

PRINCIPLES FOR SETTING A KPI SYSTEM

BALANCE

The KPI system encompasses core operations of the Company and complies with the basic principles of the Russian Power Grid Complex Development Strategy.

EARLY APPROVAL

KPI target figures are approved in advance before the start of the valuation period.

INCENTIVES

The KPI system is the primary effective system of incentives.

ENFORCEABILITY

There are KPI subject to mandatory fulfillment at any period of time.

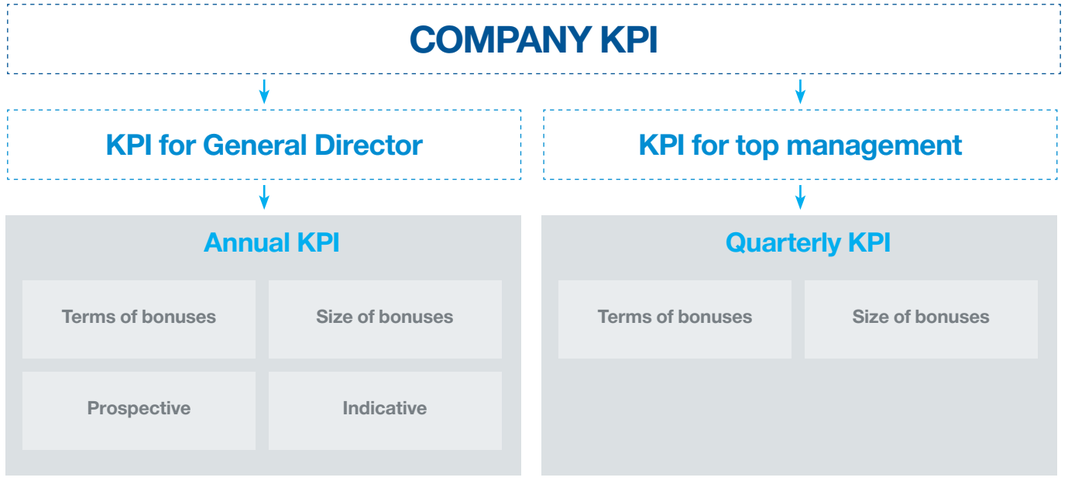
The Company provides relevant reports to the Board of Directors on its fulfillment of the KPI at the end of each quarter and year.

The General Director and top managers[5] receive bonuses at the end of the quarter or year if the Company meets all of the targets, and the results are approved by the Board of Directors.

For details on remuneration and control of senior management, please see pages 133, 138, 141 and 143 of the Annual Report.

A new system of KPI for the General Director of the Company and senior management was introduced at IDGC of Centre in 2013. In comparison with the previous years, this system includes a greater number of indicators characterizing core operations of the Company during the year. Broadly speaking, all indicators are divided in several groups: KPI specifying terms and conditions of remuneration, KPI specifying the amount of remuneration, and the long-range and indicative KPI, which do not influence the terms and amount of remuneration but are to be evaluated at the end of the year.

KPI SYSTEM OF IDGC OF CENTRE SINCE 2013:



5 Under the IDGC of Centre Regulation on bonuses and benefits for senior managers (approved by the Board of Directors, Minutes No. 16/11 dd. July 18, 2011. Senior managers include members of the Management Board, deputy general directors, the head accountant and the branch directors.

KEY PERFORMANCE INDICATORS OF IDGC OF CENTRE FOR 2013-2014:

Annual KPI	Unit of measurement
COMPONENT CONDITIONS OF BONUSES:	
Net profit	thous. RUB
Net profit, target (for reference)	thous. RUB
Drop in cost of goods (services) purchased per unit of product by at least 10% a year for three years in real terms expressed in 2010 prices, %	%
BONUS SIZE DETERMINANTS:	
Reliability: Average duration of power supply interruption	units
Receivables turnover ratio for power transmission services	days
EBITDA	thous. RUB
Growth rate of controllable operating costs in period against previous period	units
Energy losses to grid supply	%
Investment effectiveness:	
› meeting schedule for adding capacity, plan for financing and amount of capital investment, covered by reports on completion of work (for year)	%
› utilization of newly commissioned capacity	units
Quality of services provided:	
› Quality of grid connection services	units
› Quality of power transmission services	units
› Quality of services	units
Effectiveness of innovative operations	%
LONG-RANGE ANNUAL INDICATORS	
Reliability of operations:	
› SAIDI	units
› SAIFI	units
› Change in technical conditions (Δcondition index/Δcost)	units/ thous. RUB
Quality of information flow	units
Share of power transmission market in regions of operation	%
INDICATIVE ANNUAL INDICATORS	
Total shareholder return (TSR)	%
Increase/savings of controllable costs over the approved OPEX in RAB regulation system	thous. RUB

Preliminary estimates of the management indicate that all performance indicators for 2013 were met by 100%. However, at the time this Annual Report was prepared, the Board of Directors had not tallied the results of KPI for 2013.

Following the relevant decision by the Board of Directors, this information will be released on the Company's web site and will be available at http://www.mrsk-1.com/en/investors/indicators/society_kpe/2013/.

03

BOARD OF DIRECTORS' REPORT ON BUSINESS PRIORITIES

In 2013, the IDGC of Centre Board of Directors approved a number of business priorities for the Company during the current year. The list of measures taken by the Company management regarding these business priorities is presented below.

Information on the work performed by the Company aimed at fulfilling the plan of measures to implement the concept of solving the "last mile" issue

(Minutes of the Board of Directors' Meeting No. 24/13 dd. October 15, 2013)

Federal Act No. 308-FZ dd. November 06, 2013 On Amending the Electrical Energy Act cancels the last mile system starting from January 01, 2014, except for the last mile practice in a number of regions with a large share of major industrial consumers with the power receivers connected to such facilities (this relates to the Belgorod, Kursk, Lipetsk and Tambov Regions within the service area of IDGC of Centre) and where the last-mile contracts will remain valid until July 01, 2017.

Consequently, a phenomenon of shortfall in income emerges in 2014 in the regions that used to work under the last mile contracts until December 31, 2013. Such shortfall in income is stipulated by:

- UNPG consumers leaving "joint operation" and opting for direct contracts with JSC FGC UES (this relates to the Bryansk, Kostroma, Smolensk, Yaroslavl and Orel Regions in the service area of IDGC of Centre);
- The reduction of payments effected by the last mile consumers in the regions where such contracts will remain valid until July 01, 2017 (Belgorod, Kursk, Lipetsk and Tambov Regions). A separate tariff ("HV-1") has been introduced for such consumers on January 01, 2014. This tariff is set as a formula and takes into account the payment for JSC FGC UES services and compensation of cross subsidization within the "Public" group.

Subsequently, during the period from July 01, 2015 to July 01, 2017, Federal Act No. 308-FZ provides for a step-by-step reduction of the cross subsidizing load on the last mile consumers. The reduction in payments for power transmission services after switching from the HV tariff (2013) to the HV-1 tariff (2014) will amount to 46% in the Belgorod Region, 33% in the Tambov Region, 20% in the Lipetsk Region and 17% in the Kursk Region.

Accordingly, in order to compensate for the lost income of grid companies, the aforementioned Act provides that the tariffs on power transmission services (except for consumers with HV-1 tariffs) may be increased starting from January 1, 2014 by no more than 7% from their level as at December 31, 2013.

The so-called "last mile"

The process of renting facilities of the Unified National Power Grid (UNPG) by the territorial grid companies.

Within the framework of implementing these provisions, the single-rate tariffs on power transmission services for other consumers were increased starting from January 01, 2014, on average, by:

- 7% in the Belgorod and Kursk Regions;
- 6% in the Lipetsk Regions;
- 5% in the Tambov and Yaroslavl Regions;
- 4% in the Smolensk Region; and by
- 1.1% in the Kostroma Region.

As far as the Orel and Bryansk Regions are concerned, the tariffs remained at the level of H2 2013 due to an insignificant level of involvement in the last mile system.

Decisions regarding the size of tariffs were made within the maximum level of tariffs on power transmission services established by the FTS of Russia.

Implementation of provisions of Decree of the Russian Federation Government No. 403 dd. May 08, 2013 On Amending Certain Acts of the Russian Federation Government Relating to the Issues of Operation of the Territorial Grid Companies

(Minutes of the Board of Directors' Meeting No. 15/13 dd. June 13, 2013)

According to the Decree of the Russian Federation Government mentioned above, resolutions passed for IDGC of Centre regarding tariffs and balances, in connection with which rental agreements for the UNPG facilities were concluded by IDGC of Centre and JSC FGC UES in 2012 and were not concluded in 2013, can now be revised. Revision of resolutions regarding tariffs in this case shall be performed subject to the limitations of further tariff increase relative to the peak maximum levels approved the Federal Tariff Service of Russia (hereinafter the FTS):

- by no more than 7% for the power transmission tariffs; and
- by no more than 2% for the electricity tariffs for the public.

As far as IDGC of Centre is concerned, this resolution affected the Smolensk Region, where SUE Foundry and Rolling Works (consumer) had agreed with all the related parties that it would conclude a direct contract with JSC FGC UES starting from July 01, 2013.

Within the framework of implementing the aforementioned Decree dd. June 28, 2013, the Meeting of the FTS of Russia took place. While working on the approval of a direct contract between SUE Foundry and Rolling Works and JSC FGC UES by all the related parties, the Meeting approved the aggregate budgeted balance sheet for 2013 with adjustments, on the basis of which the decision was made to revise the unified joint operation tariffs for power transmission services in the Smolensk Region.

As a result of the resolutions passed, the additional increase of tariffs on power transmission services for other consumers amounted to 2.58% starting from September 01, 2013.

Organization of operations relating to the registration of maximum permissible capacity of the consumers connected earlier to the power grids of the Company

(Minutes of the Board of Directors' Meeting No. 15/13 dd. June 13, 2013)

Within the framework of this business priority, IDGC of Centre carried out the work aimed at registering the maximum permissible capacity amount and preparing documents on grid connection (grid connection reports, the reports on distributing the asset set, the reports on distributing operational liability of the parties) with regard to the consumers connected earlier to the power grids of the Company.

Construction and operation of fiber optic communication lines

(Minutes of the Board of Directors' Meeting No. 17/13 dd. July 18, 2013)

Within the framework of this business priority, 767.8 km of fiber optic lines providing digital channels of connecting with the substations were constructed in 2013. Another 825 km of the fiber optic lines are planned to be constructed in 2014. General agreements with JSC Upravleniye VOLS-VL have been concluded, with a set of standard contracts being currently under development.

OPERATING RESULTS

IDGC of Centre successfully took the functions of supplier of last resort in five regions

+0.2%

Increasing of the volume of power transmitted within the “joint operation” grid in 2013

+11.4%

The growth in revenue from power transmission in 2013

9.16%

Share of the loss of electrical energy from supply to the grid in 2013

-0.37 ppt

Reducing the loss of electrical energy in 2013

IDGC of Centre is a supplier of last resort

In 2013, a number of branches of IDGC of Centre started fulfilling the functions of the suppliers of last resort.

In 2013, the Ministry of Energy of the Russian Federation assigned the status of a supplier of last resort to IDGC of Centre in five territorial entities of the Russian Federation, i.e. in the Bryansk, Kursk, Orel, Tver and Smolensk Regions. This resolution was implemented after revoking the wholesaler status of several power supplying companies that used to operate in the aforementioned regions.

Bryansk, Kursk, Orel Regions	02'2013
Tver Region	05'2013
Smolensk Region	10'2013

In order to fulfill this task, we have taken a whole complex of measures to accept the functions of a supplier of last resort:

- We hired all personnel of the previous suppliers of last resort to work for IDGC of Centre retaining all their job duties, salary and social benefits. All workplaces were fitted with the tools and equipment in compliance with the labor law regulations.
- We signed all necessary contracts and carried out all routine work to ensure access to the trading system of the wholesale electricity market and purchase electrical energy for the consumers in full amount. Payment for the electric power supplied from the wholesale market is effected within the timeframes stipulated by the agreement on joining the trading system of the wholesale market.
- Contractual campaigns aimed at transferring consumers to the services of IDGC of Centre and signing power supply (sale and purchase) contracts with them were carried out in the shortest time.
- Agreements with the public payment processing agencies were renewed in order to ensure timely payments.
- We united the efforts of two call centers processing consumer applications and the centers of direct customer service, which allowed each and every consumer to solve all issues connected with the power supply by contacting IDGC of Centre.
- We took measures to ensure timely compilation and delivery of the updated receipts to the Company’s consumers who are common citizens.

In order to reduce the debt load of the power sales companies which were deprived of the status of a supplier of last resort, IDGC of Centre organized work aimed at collecting consumer debts payable to the previous suppliers of last resort on account of future repayment of debt for power transmission services payable to the Company.

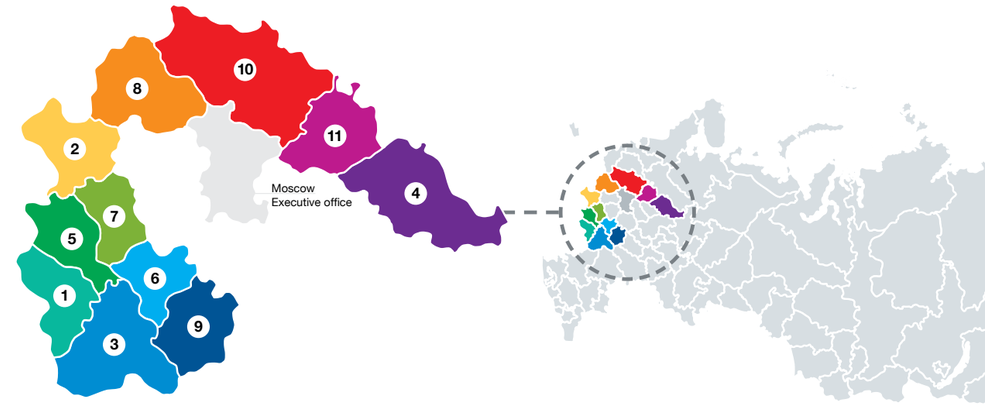
The debt of companies deprived of the status of a supplier of last resort for the power transmission services payable to the Company in 2013 was successfully reduced by 2.1 RUB bln (24%).

The positive factors of fulfilling the new type of business in 2013 included: the increased collection of debt for power transmission services, reduction of losses and acquisition of extra revenue.

06

POWER TRANSMISSION

IDGC of Centre operates in 11 regions of Central Russia, providing power to the public, commercial enterprises, agricultural enterprises, and transport. The Company is the leader in the power transmission market (83.4%); the Company’s share on this market together with its subsidiary JSC Yargorelektroset amounts to 84.3%.



1 Belgorodenergo
2 Bryanskenergo
3 Voronezhenergo
4 Kostromaenergo
5 Kurskenergo
6 Lipetskenergo
7 Orelenergo
8 Smolenskenergo
9 Tverenergo
10 Tambovenergo
11 Yarenergo

Joint operation tariffs for power supply in all 11 regions of operation were introduced in 2008. Under this system, uniform joint operation tariffs are set for consumers (suppliers of last resort, utilities, and consumers with “direct contracts”) in each region.

IDGC of Centre branches in all regions share the function of joint operation owner and collect centralized payments for power transmission from all consumers at the unified rates regardless of which grid is actually used to deliver power to the consumers. The Company branches in each region conduct mutual settlements with TGC for the power actually supplied in TGC grids based on separate tariffs set with the specific TGC.

This system provides us information both on the amount of electricity supplied by IDGC of Centre directly (in other words, for the end consumers or for the joint operation grid) and on the amount of electricity supplied within the service area of the Company’s branches. This, in turn, makes it possible for us to precisely evaluate the Company’s market share.

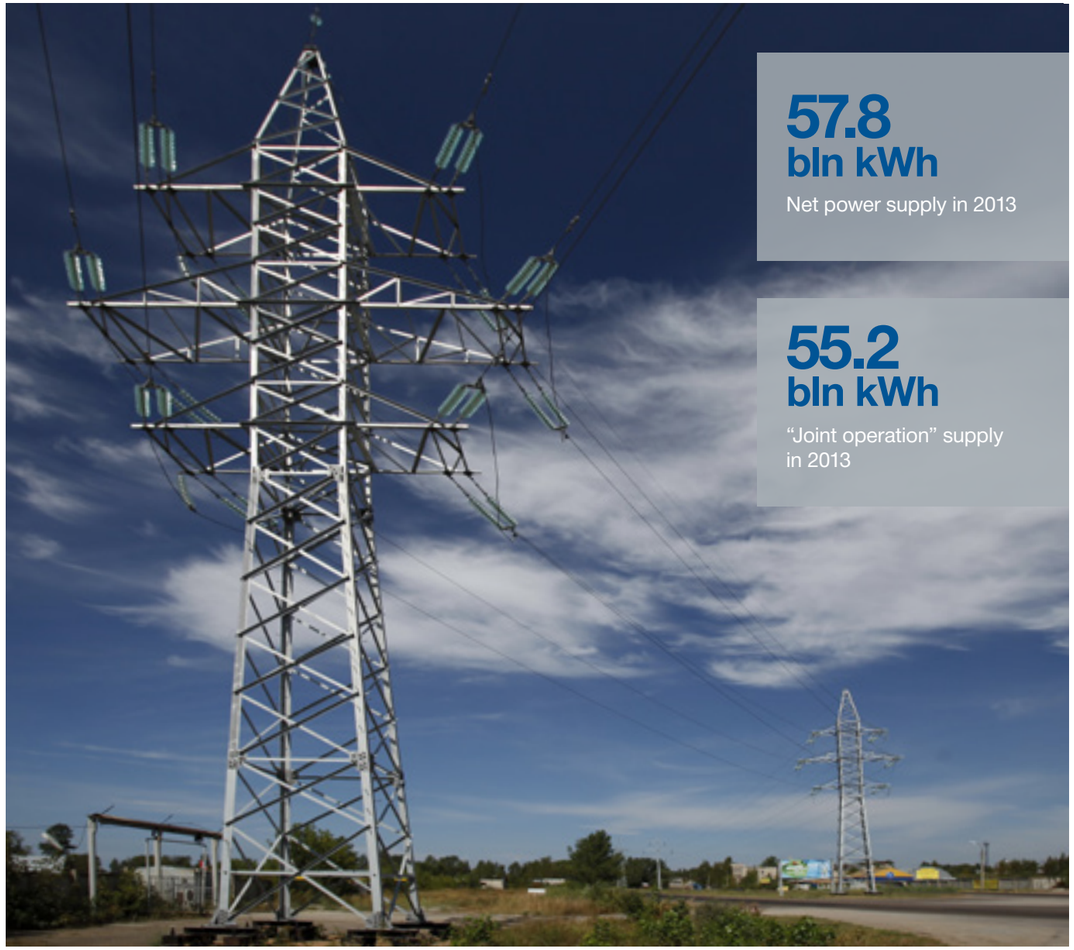
The amount of electric power supplied to the grid of IDGC of Centre in 2013 equaled 63.6 bln kWh. Meanwhile, the Company transmitted 57.8 bln kWh of energy to its consumers and neighboring territorial grid companies (net electricity supply). Power losses from the grid equaled 5.8 bln kWh (9.16%) of the amount of power supplied to the grid.

The reduction in the amount of net electricity supply in the reporting year vs. 2012 is primarily connected with the termination of the last mile contracts in 2013, as a result of which certain major consumers started to receive power transmission services directly from JSC FGC UES.

The volume of “joint operation” services rendered by the Company in 2013 amounted to 55.2 bln kWh with a 0.2% growth vs. 2012.

The Central Federal District of Russia, where the Company operates, is an economically promising and growing region.

The amount of services grew primarily due to the increased energy consumption in the most economically developed regions of IDGC of Centre operation: +1.9% in the Kursk Region, +1.0% in the Belgorod Region and +1.3% in the Tver Region. The principal growth in the amount of services rendered was stipulated by the increased consumption of the metallurgical and chemical industry, agricultural enterprises, and by the growth in energy consumption of the small and medium-size businesses.



57.8 bln kWh
Net power supply in 2013

55.2 bln kWh
“Joint operation” supply in 2013

POWER TRANSMISSION SERVICES IN NATURAL TERMS, bln kWh:

Indicator	2011	2012	2013	Change 2013/2012 bln kWh	Change 2013/2012 %
Power supply to the grid	62.9	64.0	63.6	-0.4	- 0.6%
Net power supply (amount of electricity supplied within the service area of the Company’s branches)	56.7	57.9	57.8	-0.1	-0.2%
Power losses	6.2	6.1	5.8	-0.3	-4.9%
Amount of electricity transmitted through the points of delivery to end customers (“joint operation” supply)	54.1	55.1	55.2	0.1	0.2%

Increasing of energy consumption in the most economically developed regions

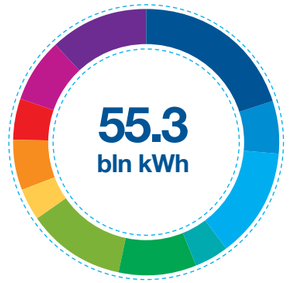
+1.9%
Kursk region

+1.0%
Belgorod region

+1.3%
Tver region

The Central Federal District of Russia, where the Company operates, is an economically promising and growing region.

POWER TRANSMISSION SERVICES RENDERED ON THE “JOINT OPERATION” BASIS BY BRANCHES OF IDGC OF CENTRE IN 2013, bln kWh / %:



	bln kWh	%
Belgorodenergo	11.2	20.2%
Bryanskenergo	3.5	6.3%
Voronezhenergo	7.3	13.3%
Kostromaenergo	2.4	4.3%
Kurskenergo	5.2	9.3%
Lipetskenergo	6.6	11.9%
Orelenergo	2.1	3.8%
Smolenskenergo	3.4	6.2%
Tverenergo	2.7	4.9%
Tambovenergo	4.3	7.8%
Yarenergo	6.6	11.9%

More info read at
http://www.mrsk-1.ru/en/about/branches/

ENERGY CONSUMPTION FROM IDGC OF CENTRE GRIDS FOR TEN BIGGEST CONSUMERS IN 2013, bln kWh:

Branch name	Consumer	Power use, bln kWh	Share in net supply, %
Net power supply for 2013		57.8	100
Belgorodenergo	Oskol Electrometallurgical Works	3.3	5.7%
Lipetskenergo	Novolipetsk Metallurgical Works	2.9	5.0%
Kurskenergo	Mikhailovsky Mining and Metal Works	2.4	4.2%
Voronezhenergo	Voronezh Municipal Power Grid	1.5	2.6%
Belgorodenergo	Stoilensky Mining and Metal Works	1.3	2.2%
Tverenergo	Tvergorelektro	1.2	2.1%
Yarenergo	Svavneft-Yaroslavnefteorgsintez	1.1	1.9%
Lipetskenergo	Lipetsk City Power Company	1.1	1.9%
Yarenergo	Yaroslavl Gorelektroset	1.1	1.9%
Voronezhenergo	South-Eastern Railways (branch of JSC RZD)	1	1.7%
Total for 10 biggest consumers		16.9	29.2%

STRUCTURE OF POWER GRID OUTPUT IN 2013 BY VOLTAGE LEVELS, %:

	%
High voltage (110 kV)	65%
Medium voltage (35 kV)	8%
Medium voltage (10 kV)	12%
Low voltage (0.4 kV)	15%

STRUCTURE OF POWER GRID OUTPUT IN 2013 BY CONSUMER GROUPS, %:

	%
Industry	33%
Territorial grid companies	34%
Transport	7%
Agriculture	5%
Non-industrial consumers	7%
State (municipal) agencies and other budget consumers	3%
Public and the equivalent types of consumers	11%

As IDGC of Centre took on the functions of a supplier of last resort in 2013, it is incorrect to compare Company revenues received in the reporting year from power transmission services with the revenues received in 2011-2012. This is stipulated by the fact that a certain part of revenues from power transmission is included in the income from power sales in the accounts.

In order to adjust the comparison, below we have stated two figures for 2013 – the first one calculated under the RAS reports and the second in relative numbers.

REVENUES FROM POWER TRANSMISSION SERVICES IN 2011-2013, bln RUB:

Indicator	2011	2012	2013 (Rep.)	Change, 2013/2012, %	2013 (Rel.)	Change, 2013/2012, %
Revenues from power transmission	65.7	67.5	61.4	-9%	75.2	11.4%

Rep. – the amount calculated under the RAS reports
Rel. – the amount in the relative conditions, 2011-2012

STRUCTURE OF REVENUE FROM POWER TRANSMISSION SERVICES IN 2011-2013, RUB bln and %:

Indicator	2011	2012	2013 (Rel.)	Change, 2013/2012, %
Revenues from power transmission	65.7	67.5	75.2	11.4%
Of which:				
Company own revenue	54.5	55.8	62.7	12.4%
Share of Company own revenue, %	82.9	82.6	83.4	0.8 ppt
Revenue of the other TGC	11.2	11.7	12.4	6.2%

Rel. – the amount in the relative conditions, 2011-2012

+11.4%

Growth of the actual revenue in 2013

+83.4%

The share of specific revenue in 2013

The actual revenue of the Company from power transmission in 2013 grew by 11.4% vs. 2012.

The primary reason for the positive dynamics is the increase of the average tariff by 141 RUB/thous. kWh, which led to an increase of the Company's revenues by 7.8 bln RUB. An insignificant increase in the cost of capacity losses accounted for in the equilibrium prices on electrical energy was revealed, the fact resulting in the reduction of revenues by 0.2 bln RUB, however, taking into account the growth in net power supply by 0.07 bln kWh, the total revenue growth amounted to 7.7 bln RUB.

The share of specific revenue of IDGC of Centre (i.e. for the "joint operation" services) in 2013 increased as well, the figure coming to 83.4% (62.7 bln RUB). The increase of own revenues by 12.4% vs. 2012 is connected with the growth in consumption volumes.

NET PROFIT FROM POWER TRANSMISSION IN 2011 – 2013, bln RUB:

Indicator	2011	2012	2013	Change, 2013/2012, %
Net profit from power transmission services	3.7	2.4	-1.0	-141.7%

In 2013, IDGC of Centre incurred losses from power transmission in the amount of 1 bln RUB. The primary reason for this negative financial result is the creation of a bad debt provision relating to the transmission of electrical energy of the power sales companies deprived of the status of a supplier of last resort.

The cost of IDGC of Centre power transmission services in 2013 (in relative conditions) amounted to 63.3 bln RUB and exceeded the figure of 2012 by 10.4%. The cost of core operations grew due to the following factors:

+20.0%

› Growth of depreciation payments after commissioning a significant amount of facilities comprising fixed assets under the IDGC of Centre investment program implementation in 2013.

+19.6%

› Growth of power purchase price acquired in order to compensate for the losses in the Company's grids.

+10.4%

› Growth of tariffs on power transmission services under the Unified National Power System (UNPS) rendered by JSC FGC UES.

+6.2%

› The growth of individual tariffs for the territorial grid companies on the operation territory of the IDGC of Centre branches led to a 6.2% increase in payments for the power transmission on third-party grids.

COST DYNAMICS OF POWER TRANSMISSION IN 2011-2013, mln RUB:

Indicator	2011	2012	2013 (Rep.)	Change, 2013/2012, %	2013 (Rel.)	Change, 2013/2012, %
Cost of core operations	54,912	57,315	62,949	10%	63,283	10%
Non-controllable costs	37,987	39,576	44,560	13%	44,560	13%
Loss compensation expenses	8,717	8,251	9,865	20%	9,865	20%
JSC FGC UES services	12,835	13,340	14,730	10%	14,730	10%
TGC services	11,223	11,713	12,443	6%	12,443	6%
Depreciation of fixed assets and intangible assets	5,212	6,271	7,523	20%	7,523	20%
Controllable costs	16,925	17,740	18,389	4%	18,723	6%
Tangible expenses	2,325	2,402	2,456	2%	2,456	2%
Production services	884	905	775	-14%	775	-14%
Personnel expenses (payroll, insurance payments, payments to the national pension fund)	10,355	11,153	11,993	8%	11,993	8%
Other expenses	3,362	3,280	3,165	-3%	3,499	7%

Rep. – the amount calculated under the RAS reports
Rel. – the amount in the relative conditions, 2011-2012

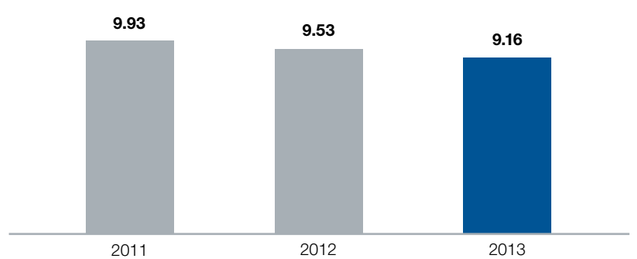
For details on operating and financial indicators relating to power transmission, please see Appendix No. 2 to the Annual Report or corporate website at http://www.mrsk-1.com/en/investors/indicators/operating-results/.

02

ENERGY LOSSES

Actual energy losses in the power grids of IDGC of Centre in 2013 totaled 5.8 bln kWh (9.16% of power supply to the grid). The amount of losses dropped by 0.3 bln kWh (0.37% of power supply to the grid) vs. 2012.

CHANGES IN ELECTRICITY LOSSES IN 2011 – 2013, %:



CHANGE IN ENERGY LOSSES IN 2011-2013, %:

Indicator	2011	2012	2013	Change, 2013/2012, %
Loss, actual, %	9.93	9.53	9.16	-0.37 ppt
Loss, plan, %	9.93	9.78	9.43	-

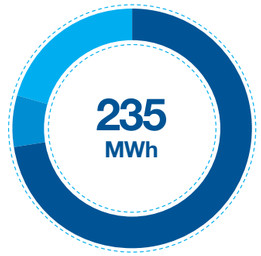
Optimization of energy losses is one of IDGC of Centre's business priorities. Implementation of a set of measures aimed at reducing the level of losses in 2013 resulted in saving 235 mln kWh of energy, which equaled 675 mln RUB. The economic benefit of 2013 exceeded the figure of 2012 by 3.2% (21 mln RUB).

In general, these measures can be divided into three areas: organizational measures, technological measures and measures to improve the system of electrical energy billing and metering.

ENERGY LOSS REDUCTION MEASURES IN 2013 AND THEIR ANNUAL EFFECT, thous. kWh:

Measures	Annual effect
Measures, total	**234,953**
1. Organizational measures	170,952
Of which, key measures:	
› Including non-metered consumption into net supply (utilities)	97,276
› Payment of non-contractual consumption (grids)	36,336
› Transformer shutdown during low load at substations with two or more transformers	6,258
2. Technological measures	16,144
Of which, key measures:	
› Replacement of overloaded transformers	546
› Replacement of 0.4 feeders with self-supporting insulated wire	2,472
› Replacement of wire with larger section at overloaded power lines	8,674
3. Measures to improve electrical energy billing and metering	47,857
Of which, key measures:	
› Installation of commercial metering at 04, kV	8,226
› Installation of commercial metering at private rural households	21,795

KEY ENERGY LOSS REDUCTION MEASURES IN 2013:



	mln kWh
Organizational measures	171
Technological measures	16
Improvement of energy metering	48

235 MWh

675 mln RUB

Effect of loss reduction through measures

IDGC of Centre presented its results in the area of energy conservation and energy efficiency at the ENES 2013 forum

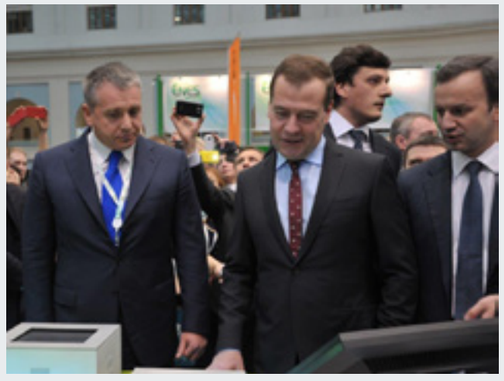
IDGC of Centre participated in the Second Energy Efficiency and Energy Saving Forum ENES 2013.

The Company's representatives took part in the business program of the forum and discussed the ways of implementing the state program aimed at reducing the power capacity of industrial enterprises with the senior management of major enterprises, representatives of the federal and regional authorities and businessmen, and familiarized themselves with the international know-how and the latest developments in the area of energy conservation.

The Prime Minister of the Russian Federation Dmitry Medvedev took part in the forum as well; he familiarized himself with the displays presented by the regional administration and major power companies' representatives, including the demonstration booth of IDGC of Centre.

General Director of IDGC of Centre Oleg Isaev acquainted the Prime Minister of the Russian Federation in detail with a physical model of controlling the operational modes of the power grid distribution complex, which provides an opportunity to drastically change the approach to working with reactive power. Dmitry Medvedev saw the economic benefit from energy conservation and energy efficiency measures aimed at increasing the reliability, quality, availability and effectiveness of the power supply on the territories of IDGC of Centre operation and in Russia as a whole.

At the forum, IDGC of Centre and Moscow Power Engineering Institute signed an agreement on development and cooperation, aimed at furthering the relations between the Company and the Institute regarding target training of recent graduates and internship at the facilities of IDGC of Centre.



The final day of the forum was devoted to its young guests. The ENES 2013 forum gathered recent graduates and young prospective employees of fuel and energy companies, post- and undergraduate students as well as college students. On this Youth Day, a National Park of the initiatives of the young intended to promote the culture of energy efficiency and energy conservation in the Russian Federation was opened and the All-Russian Contest for the Best Fuel and Energy Complex Programs for Students and Recent Graduates was held.

Within the framework of the competition that took place at the forum, the IDGC of Centre team presented Russian Minister of Energy Alexander Novak with a design of a project currently under development, entitled "How to increase energy efficiency of the power grid complex" and illustrated the topic with the help of visualization means for the forum guests.

03

ENERGY CONSERVATION AND ENERGY EFFICIENCY

IDGC of Centre carries out its activities in the area of energy conservation and increasing energy efficiency in accordance with the regulations of the current laws of the Russian Federation:

- Federal Act No. 261-FZ dd. November 23, 2009 On Conserving Power and Increasing Energy efficiency and on Amending Certain Statutes of the Russian Federation.
- Decree of the Russian Federation Government No. 340 dd. May 15, 2010 On the Procedure of Setting Requirements for Programs in the Area of Energy conservation and Increasing Energy efficiency of Regulated Companies.
- Decree of the Russian Federation Government No. 977 dd. December 01, 2009 On Investment Programs of Electrical Energy Market Participants.

However, the success in reducing the level of power losses in the grid and consumption of power resources for the economic needs along with the technical consumption of the electrical energy for losses during power transmission depends primarily on the proper implementation of the Company's Program of Energy Conservation and Increasing Energy efficiency. In 2012, this program was developed and approved by the Board of Directors for 2012-2016.

The program consists of target subprograms (measures) and additional measures. Apart from that, it includes measures aimed at reducing electrical energy losses during its transmission and distribution in the grids as well as the measures aimed at reducing the consumption of energy resources at the facilities for production and economic needs, these measures being divided as well into organizational, technological and those aimed at improving the electrical energy metering system.

Target measures include those that ensure a reduction in the consumption of energy resources (including electrical energy) and/or water by at least 15% of the annual consumption of the relevant resource with a 5-year payback period of the 80% of the invested funds as far as the consumption of energy resources and/or water for production and economic needs are concerned; besides, a 10-year payback period is set for the measures ensuring the reduction of losses when transmitting and distributing electrical energy are concerned.

Additional measures aimed at optimizing consumption for production and economic needs and reducing losses of electrical energy include measures having positive energy efficiency, which cannot be counted among the target measures.

Meanwhile, measures aimed at shutting down transformers with seasonal load and transformers during low demand at substations with two or more transformers are carried out on an annual basis, are classified as measures ‘supporting’ the current level of loss and do not affect the electrical energy balance indicators of the Company.

THE PROGRAM OF ENERGY CONSERVATION AND INCREASING ENERGY EFFICIENCY OF IDGC OF CENTRE:

TARGET SUBPROGRAMS (MEASURES)	ADDITIONAL MEASURES
Loss reduction measures	Measures to reduce consumption of energy resources at the facilities for production and commercial needs

Organizational measures	Technological measures	Electric energy metering improvement measures

THE IDGC OF CENTRE PROGRAM OF ENERGY CONSERVATION AND INCREASING ENERGY EFFICIENCY SETS THE FOLLOWING TARGET INDICATORS FOR THE COMPANY IN 2013:

		2013	
Indicator	Unit of measurement	Plan	Actual
Energy loss, including:	mln kWh	5,967	5,832
	% of fixed assets	9.43	9.16
› expenses on substations’ specific needs	mln kWh	127.60	119.79
Consumption of resources for economic needs, including (by resource type):	mln RUB	965.53	924.79
› fuel and energy, including:	tons fuel equiv. / sq. m	58.29	54.85
	mln RUB	0.08	0.07
	tons fuel equiv. / sq. m of premises	348.87	322.48
› electrical energy	mln kWh	141.13	133.92
	mln RUB	277.20	258.65
› heat energy	Gcal	54,115.69	49,328.52
	mln RUB	64.84	57.40
› gas	thous. cub. m	1,380.42	1,174.40
	mln RUB	5.81	5.60
› other (diesel fuel, kerosene, gasoline, etc.)	thous. tons fuel equiv.	28.87	27.90
	mln RUB	608.57	596.81
› hot water supply	thous. cub. m	19.15	15.25
	Gcal	239.85	199.97
	mln RUB	1.02	0.83
› cold water supply	thous. cub. m	333.80	250.54
	mln RUB	8.08	5.50
Availability of modern electrical energy metering devices on the retail market	%	91.80	91.80

As a result of implementing the energy conservation program in 2013, the loss was reduced by 0.3% of the net supply to the grid. The relevant figures in 2012 and 2011 amounted to 0.4% and 0.3% respectively.

ACHIEVEMENT OF TARGET INDICATORS IN ENERGY CONSERVATION PROGRAM FOR 2013 :

			Change	
Indicator	Plan	Actual	Absolute	Relative
Reduction in energy loss, mln kWh	207.7	235	27.3	13.14%
Effect, tons fuel equiv.	71,873	81,196	9,323	12.97%
Economic effect, mln RUB	594.5	675.3	80.8	13.59%

IDGC of Centre reported the result of 0.24 bln kWh (675 mln RUB) from this Program implementation in 2013. The Company managed to save 187 mln kWh of electrical energy, which amounts to 539.7 mln RUB, by taking target measures aimed at reducing electrical energy losses and 255 tons of fuel equivalent in the amount of 1.3 mln RUB by taking measures to reduce consumption of resources for utility needs.

All measures are financed at the expense of the investment and maintenance programs of IDGC of Centre, the implementation of which is 2013 demanded 3.8 RUB bln.

An open meeting of the extended Management Board of IDGC of Centre, devoted to the issues of increasing energy efficiency, was held on November 07, 2013

Apart from the members of the Company's Management Board, the meeting was attended by Deputy Minister of Energy of the Russian Federation Anton Inyutsyn, who supervises this area, and by invited experts - representatives of the top management of the leading international consulting firms specialized in analyzing the operations and developing strategic solutions for the power grid complex.

When opening the meeting, General Director of IDGC of Centre Oleg Isaev emphasized that energy conservation technologies are currently one of the key implementation areas of the Russian energy policy. IDGC of Centre is working actively in this area by taking a whole set of measures on its facilities aimed at increasing the energy efficiency of the power grid infrastructure.

In his opening speech, Deputy Minister of Energy of the Russian Federation Anton Inyutsyn stressed that the issue of reducing the power capacity of the economy may only be addressed by joining the efforts of all state agencies, energy enterprises, major industrial companies and small business owners. In this perspective, companies operating within the distribution grid complex can become locomotives of this process by advocating energy conservation even further among the public and the production sector and by implementing 'smart' municipal lighting projects and providing energy servicing.

The Company management's report on the Q1-Q3 2013 results of implementing the Program of Energy Conservation and Increasing Energy Efficiency of IDGC of Centre in 2013-2018 was presented to and discussed by the participants of the meeting, who also announced the results of the Company's competition of energy conservation projects and those of boosting energy efficiency.

The winners were awarded with honorable certificates and prizes. Suggestions formulated in their projects will supplement the Program of Energy Conservation and Increasing Energy efficiency of IDGC of Centre, which will be presented to the Company's Management Board for preliminary consideration after introducing the relevant adjustments.

04

SALES

16.0 bln RUB

Revenue from electrical energy sales in 2013

0.4 bln RUB

Net profit from sales in 2013

By the end of 2013, the revenues of IDGC of Centre from selling electrical energy acting as a supplier of last resort amounted to 29.8 bln RUB in accordance with Company accounting reports compiled on the basis of the RAS.

However, considering the fact that these revenues include a part of revenues from power transmission on the territory of operation of five Company branches acting as suppliers of last resort, it is more appropriate to speak of the revenues from electrical energy sales in the amount of 16 bln RUB.

COMPANY PERFORMANCE INDICATORS REGARDING ELECTRICAL ENERGY SALES IN 2013, bln RUB:

Indicator	2013 (Rep.)	2013 (Rel.)
Electrical energy sales revenue	29.8	16.0
Cost of electrical energy sales	14.5	14.1
Net profit	0.4	0.4

2013 (Rep.) – the amount calculated under the RAS reports
2013 (Rel.) – the amount in relative conditions

05

GRID CONNECTION

IDGC of Centre connects new consumers to electrical grids in 11 regions of the Central Russia. In this context, we provide services to both residential and legal consumers that wish to connect their newly commissioned or previously connected power installations, with an increase of their maximum capacity, to the Company's grids.

Grid connection is carried out as well in the cases of changes in the category of power supply reliability or points of delivery of the power installations connected earlier and in the cases of alteration of such installations' type of operation not leading to a revision of the maximum capacity but changing their external power supply circuit. Grid connection is made using a temporary or an ongoing power supply scheme.

This type of operation is regulated by the state through the Rules of Grid Connection for Power Installations of such groups of customers as Electrical Energy Consumers, Electrical Energy Production Facilities and Electrical Grid Facilities Belonging to Grid Companies, alongside with Other Entities; besides, the state sets the amount of payment for electrical grid connection.

The process of grid connection consists of several procedures, the timeframes of which are regulated by the current laws of the Russian Federation and by the internal regulations of the Company.

Grid connection volumes of a grid company depend on the current status and development plans of the economy in the regions where the Company's branches are located. IDGC of Centre received around 63 thous. requests in 2013 for the connection of power installations to its power grids, which was a slight drop of 0.9% vs. 2012.

THE PROCEDURE OF CONSUMER GRID CONNECTION

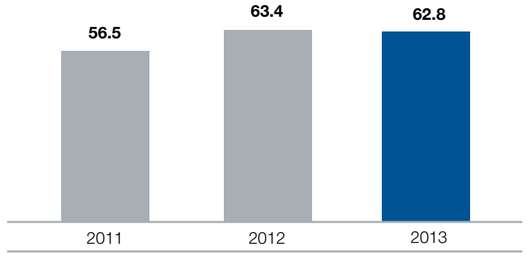
A grid connection contract is concluded on the basis of a request from the consumer → **The contractual parties take measures specified in the grid connection contract** → **The fulfillment of technical requirements by the applicant is checked**

↓

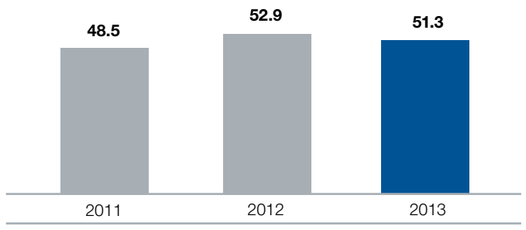
ACTUAL GRID CONNECTION IS MADE → **Necessary reports are compiled**

IDGC of Centre signed over 51 thous. contracts for grid connection based on those requests in 2013. This indicator dropped by 3% vs. the previous year, which resulted from the reduction in the number of applications from the potential consumers.

NUMBER OF REQUESTS FOR GRID CONNECTIONS IN 2011-2013, thous. requests:

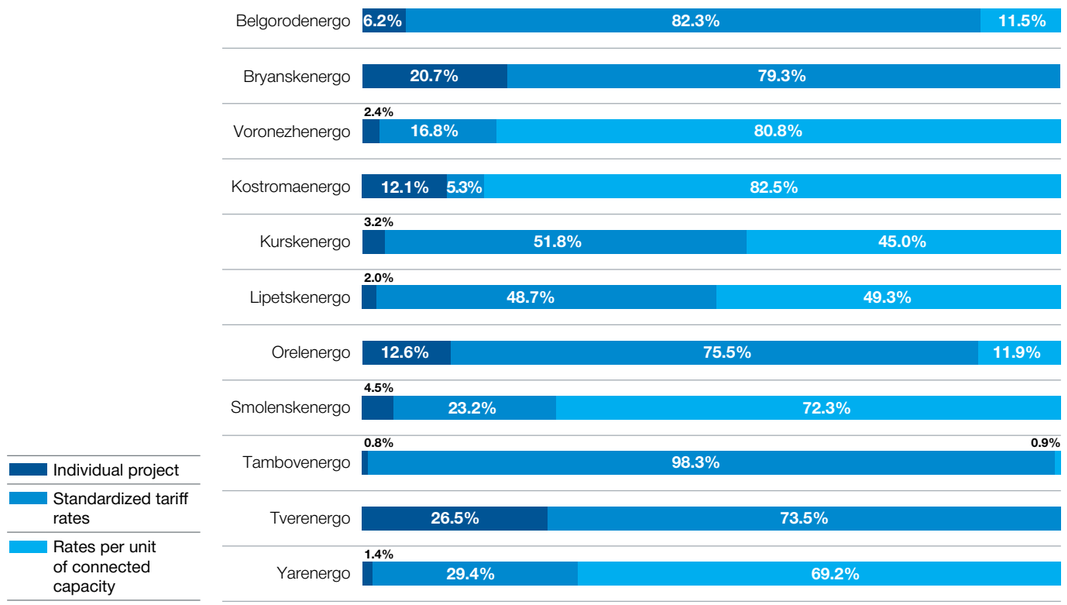


NUMBER OF CONTRACTS SIGNED FOR GRID CONNECTIONS IN 2011-2013, thous. requests:



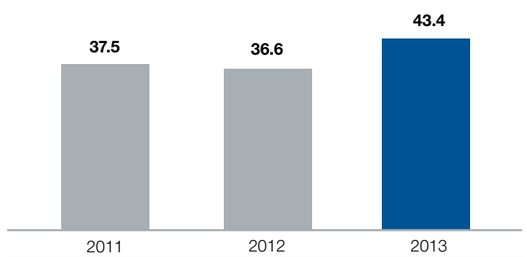
When signing the grid connection contract, the applicant may choose the way of payment for the grid connection on his/her own. Around 94% of all contracts in 2013 were signed with the consumers entitled to benefits, the cost of services for each of them amounting to 550 RUB in accordance with the Russian Federation laws. The rest of the applicant categories chose the following payment options:

GRID CONNECTION PAYMENT OPTIONS RATIO FOR APPLICANTS IN 2013, %:

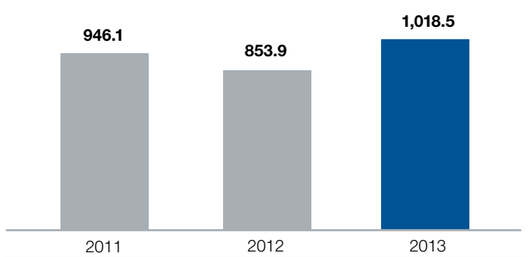


The Company implemented over 43 thous. contracts signed for grid connections in 2013, the number exceeding the 2012 figures by 18.8%. The total amount of connected capacity in 2013 was 1,018.5 MW.

NUMBER OF IMPLEMENTED CONTRACTS FOR GRID CONNECTIONS SIGNED IN 2011-2013, thous. contracts:



CONNECTED CAPACITY IN 2011-2013, MW:



1,018.5 MW

Total connected capacity in 2013

43 thous. contracts

Number of implemented contracts in 2013

A 19.3% increase in connected capacity vs. 2012 is stipulated by the connection of major facilities with a high maximum capacity in 2013. The following major consumers were connected to the grid in the reporting year:

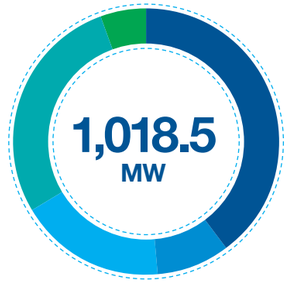
- Department of Architecture and Construction Policy of the Voronezh Region with a total capacity of 34 MW;
- LLC GOELRO with a capacity of 10 MW;
- JSC Vympel-Communications with a capacity of 9.6 MW;
- LLC Tambov Bacon with a capacity of 9 MW;
- B.A. Nesterov Individual Entrepreneur with a capacity of 9 MW;
- LLC Lipetsk City Power Company with a capacity of 7 MW;
- LLC Armax-Group with a capacity of 6.1 MW.

39.8% of all the contracts signed for grid connections in 2013 were the contracts with consumers entitled to benefits with a capacity of up to 15 kW, and 28.0% were the contracts concluded with major applicants with a capacity starting from 670 kW.

The revenues of IDGC of Centre from rendering the services of connecting power installations to the electrical grids in 2013 dropped to 0.9 bln RUB. A 25% reduction in Company revenues vs. the previous period is associated with postponing the terms of grid connection for a number of major projects.

The financial result from these operations demonstrates similar dynamics – it dropped by 28.6% and amounted to 0.5 bln RUB.

STRUCTURE OF CONNECTED CAPACITY IN 2013 BY APPLICANT, MW and %:



Applicant category	MW	%
Up to 15 kW	**404.9**	**39.8%**
15-150 kW	**90.7**	**8.9%**
150-670 kW	**181.4**	**17.8%**
Over 670 kW	**285.6**	**28.0%**
Generation	**55.9**	**5.5%**

FINANCIAL RESULT OF GRID CONNECTION SERVICES IN 2011-2013, bln RUB and %:

Indicator	2011	2012	2013	Change 2013/2012, %
Revenue on grid connection	1.7	1.2	0.9	-25.0%
Net profit on grid connection*	1.2	0.7	0.5	-28.6%

* Obligations on grid connection included in financial reports as net profit.

08

OTHER ACTIVITIES

In order to diversify its business, the Company actively develops additional services rendered to its clients apart from core operations of power transmission and grid connection.

Additional design, construction, maintenance and overhaul services for the energy facilities allow the Company to make the most of its resources and experience and to obtain extra income as these services are provided on a fully commercial basis and are not subject to regulation as far as the tariffs are concerned.

+160.0%

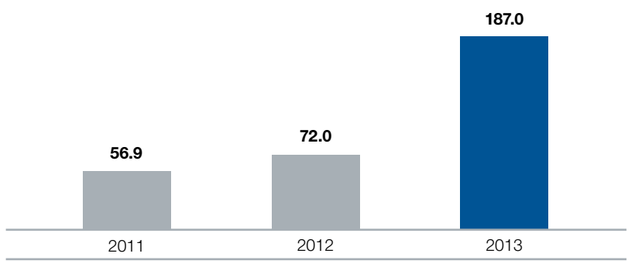
Increase in number of requests for additional services in 2013

The key additional services IDGC of Centre provides are:

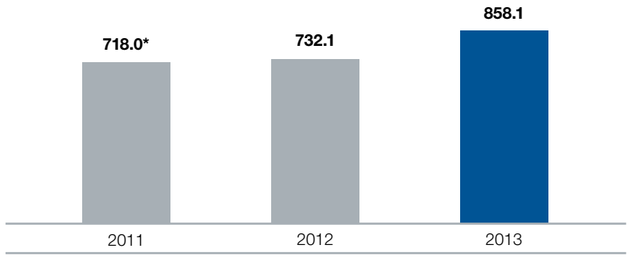
- Maintenance and development of outdoor lighting networks;
- Service and repair of power grids and electrical equipment;
- Overhaul of power grids according to the customer's requests;
- Provision of technical resources
- Equipment testing and diagnostics;
- Installation and repair of metering devices;
- Energy audit and services;
- Design and construction of energy and other facilities.
- Performance of the work belonging to the responsibility of customers when carrying out grid connection.

The successful development of these operations is confirmed by a growing number of customer requests year by year: the record 187,000 requests were made in 2013, which is 160% higher than the figure of 2012.

CHANGE IN CUSTOMER REQUESTS FOR ADDITIONAL SERVICES IN 2011-2013, thous. requests:



CHANGE IN REVENUE ON OTHER OPERATIONS IN 2011-2013, mln RUB:



* Not including the one-time contract for accident response at JSC MOESK facilities in 2011 (totaling 62 mln RUB).

+17.2%

Increase in revenue from other activities in 2013

The growth in the number of customer requests allows the Company to increase the income from rendering additional services. The revenues from other operations in 2013 amounted to 858.1 mln RUB, which reflected a 17.2% growth vs. 2012.

THE COMPANY TOOK THE FOLLOWING MEASURES IN ORDER TO FACILITATE THE DEVELOPMENT OF ADDITIONAL SERVICES AND INCREASE THE INCOME ON THEM:

Measures in 2013	Result
Active promotion of services, in particular, through the relevant section on the Company's website	The number of requests grew by over 34,000
A new 'turnkey' service of fulfilling all procedures belonging to the customer's responsibility and aiming at ensuring grid connection was introduced	The revenue brought by the service of fulfilling all procedures belonging to the costumer's responsibility and aiming at ensuring grid connection, grew by 5.4 mln RUB vs. 2012
Simplification of contractual work with the customers	The time necessary to draw up a contract was reduced on average by 15 minutes
Engagement of contracting companies to the fulfillment of contracts for additional services	With the load on employees reduced, the operating capacities of the Company grew. The revenues from additional services grew by 18.9 mln RUB vs. 2012
Introduction of discounts for certain customer groups	The number of requests from the customers grew by 11,500 vs. 2012
Entry into the Sberbank AST electronic trading platform as a contractor of municipal orders	The revenues from overhaul and maintenance services grew by 33.6 mln RUB

The Company is planning to take the following measures in 2014 to develop the additional services further:

- To continue the development of the contracting scheme of fulfilling obligations under the additional service contracts.
- To introduce standard technological charts/technological solutions. This measure will allow the Company to unify approaches to rendering additional services on all territories where such services are rendered and make the Company's services more available and transparent to the customers.
- To research the market of the service of installation and replacement of metering devices and subsequently enter the market of installation and replacement of metering devices in appartment blocks.
- To expand the services market of construction and reconstruction of the outdoor lighting systems by using the software set to calculate the energy efficient outdoor lighting systems developed within the R&D program.

Service consumers are the Company's key stakeholders. In order to organize effective communication, IDGC of Centre is developing a customer service system based on the following pillars:

COMPLETENESS OF INFORMATION ON THE COMPANY AND ITS SERVICES PROVIDED TO CONSUMERS

Complete and reliable information on all procedures relating to interaction with the grid company is open for the general public and is provided in a form available to the service consumers. This principle relieves consumers of the necessity to inquire reference information and consulting from the Company and thus leads to a reduction in transaction costs of the Company.

TERRITORIAL ACCESSIBILITY AND CONVENIENT CONDITIONS OF THE ON-SITE COMPANY SERVICE

The location of the on-site service infrastructure facilities ensures coverage of the grid company's service area and availability of customer service. The Company's on-site service is convenient for all consumer groups and is organized following the unified requirements to the quality of services rendered within the whole Company's service area.

AVAILABILITY AND PROMPTNESS OF THE OFF-SITE AND INTERACTIVE COMPANY SERVICES.

Off-site consumer communication channels provide for a round-the-clock access to the off-site service and allow prompt reaction of the Company to consumer requests.

PROFESSIONAL SERVICE

Organization of all service forms provides for a high level of expertise and qualification of the Company's service personnel.

TRANSPARENCY OF CUSTOMER SERVICE RELATED BUSINESS PROCESSES AND OBJECTIVE APPROACH IN RESOLVING CUSTOMER CLAIMS

The grid company exercises an objective and unbiased approach to resolving claims in due time and provides for an opportunity to appeal against the decisions made. The appellation procedure is communicated to consumers according to the principle of information completeness.

The Company interacts with its customers in compliance with the regulations of the current laws of the Russian Federation and in accordance with the Centralized Customer Service Standard of IDGC of Centre approved by the Company's Board of Directors in May 2013.

For details on these documents, please visit our corporate website at http://www.mrsk-1.com/common/upload/docs/Standard_for_customer_service_2013.pdf

THE COMPANY'S CUSTOMER SERVICE SYSTEM INCLUDES ON-SITE, OFF-SITE AND INTERACTIVE CUSTOMER SERVICE:

ON-SITE

415 offices in IDGC of Centre regions:
- 13 Category 1 CSC*.
- 23 Category 2 CSC.
- 378 Category 3 CSC.
- 1 payment processing center

On-site service is carried out through a direct contact of the customers with the Company's employees. Communication channels in this care are CSC, request processing centers, the Company's offices and distribution zones.

OFF-SITE

- Direct line for energy workers: 8 800-50-50-115.
- Reliance telephone: 8 800-100-9000.
- Post.
- Customer box

Off-site service is carried out without the customers directly contacting the Company's employees. Communication channels for the customers in this case are call-centers, the online reception of the Company, customers' personal accounts, e-mail services, the post and the customer box.

The evaluation of reliability and quality of the services provided indicates the effectiveness of interaction between the Company and its consumers. In 2013, this indicator reached the planned levels at all the Company's branches, approved by the governments of the territorial entities of the Russian Federation under state regulation of tariffs.

INTERACTIVE

- E-mail-service.
- Online customer reception at Company website.
- Customer's personal account

The clients have an opportunity to evaluate our work on their own by filling out the IDGC of Centre service quality form at the online reception.

* CSC – Customer Service Centre.

The first meeting of the Board of Service Consumers of IDGC of Centre

In order to optimize and coordinate work with the consumers of services provided by IDGC of Centre, the Board of Service Consumers was created in 2013, which is a collective expert body representing the interests of all consumer groups, public and business community associations.

This has been a significant event for the Company, which highly valuates close business relations with its consumers and believes that this will help the Company to prepare joint expert opinions and suggestions on amending statutory acts in the future.

The first Board meeting in praesentia was held on October 5 in Moscow. The meeting was attended by over 70 representatives of the regional public associations, major industrial consumers, representatives of small and medium-scale business, as well as the workers of the electrical grid complex and specialists of power sales companies.

The meeting addressed the urgent issues facing the grid companies and consumers, and marked the top priority initiatives aimed at improving the regulatory framework.

During the meeting, the participants also discussed the issues of taking measures relating to energy efficiency and energy conservation by consumers and developing the ways of regulating relations between representatives of the gardening partnerships and grid organizations when performing grid connections.

The meeting ended with the formulation of suggestions and recommendations concerning some areas of IDGC of Centre operation. In order to clarify the issues that concern the consumers and relate to the regulatory framework, it was decided to hold a number of meetings and roundtables with the participation of representatives of the grid company.

We took the following measures under the customer-centric policy in 2013:

- The process of grid connection was optimized: a ‘turnkey grid connection’ service was introduced, which is provided at the request of an applicant.
- An on-site reception of consumer requests was organized at the executive office of IDGC of Centre in Moscow.
- An online service for processing grid connection requests was launched on the corporate website of IDGC of Centre providing for an option of tracking the status of a grid connection request online.
- A system of discounts on additional services of the Company was introduced.
- A ‘one stop’ principle of providing power grid and power sales services was introduced at CSC servicing clients of the branches that took on the functions of suppliers of last resort.
- Over 50 roundtables regarding the process of rendering services were held.

IDGC of Centre is planning to take the following measures in 2014:

- To upgrade equipment of the Contact Center which will provide for a future opportunity to start integration of the Company’s information centers and implement the IVR[6] functionality.
- To gain access to short (4-digit) telephone numbers for free calls from the JSC Rostelecom fixed line.
- To organize sms-notification of the public about the regular and emergency work involving outages, and notification on the execution status of grid connection requests.
- To expand options of the client’s personal account relating to the power transmission services and additional services and the improvement of interface for processing gird connection requests.
- To train and qualify personnel that directly deals with the service consumers.
- To disclose information on the service provision procedure by publishing service (process) certificates.

6 Interactive Voice Response — a system of pre-recorded voice messages aimed at transferring calls within the call-center using information which the client enters on his/her telephone keyboard with the help of tone dialing.

FINANCIALS

Additional income from fulfilling the functions of a supplier of last resort amounted to 16.0 bln RUB under the IFRS

11.5 bln RUB

EBITDA in 2013

+34%

Increase in revenue in 2013

16.0 bln RUB

Additional income from fulfilling the functions of a supplier of last resort in 2013

1.7 bln RUB

The cumulative effect of cost management program

BB "Stable" outlook

S & P credit rating

AA Very High Credit Quality

National Rating Agency credit rating

2013 Financial Calendar

FEBRUARY

Standard & Poor`s rating agency improved the Company's rating by one point from "BB-" to "BB" with a "Stable" outlook.

MARCH

IDGC of Centre published its RAS financial statements for 2012: the revenues and power transmission volumes demonstrated a 1.9% and 1.8% growth respectively, power losses were reduced by 0.4%.

APRIL

The National Rating Agency improved the individual credit rating of IDGC of Centre from "AA-" to "AA" (Very High Credit Quality, Level 2).

IDGC of Centre published its Q1 2013 financial statements under RAS: the revenue and gross profit demonstrated a 21.5% and 21.0% growth respectively.

The Company published its IFRS financial statements.

The first coupon payment was made in the amount of 178.5 mln RUB on Series BO-01 traded certified interest-bearing non-convertible bearer bonds (state identification number 4B02-01-10214-A) with a total circulation volume of 4 bln RUB and the coupon price of 44.63 RUB.

JUNE

The Company prepared the issue of Series BO-02 – BO-06 bonds for a total amount of 25 bln RUB with a 10-year maturity period, state identification numbers 4B02-02-10214-A – 4B02-06-10214-A respectively.

JULY

H1 2013 financial statements under RAS were published: the Company's revenue demonstrated a 23.3% growth.

AUGUST

The Company published its interim H1 2013 financial statements under IFRS.

OCTOBER

The second coupon payment was made in the amount of 178.5 mln RUB on Series BO-01 traded certified interest-bearing non-convertible bearer bonds (state identification number 4B02-01-10214-A) with a total circulation volume of 4 bln RUB and the coupon price of 44.63 RUB.

The Company published its Q1-Q3 2013 financial statements under RAS.

IDGC of Centre signed credit agreements with VTB Bank for a total amount of 7.2 bln RUB with a term of 5-6 years.

DECEMBER

IDGC of Centre signed a facility agreement with Sberbank of Russia for a total amount of 6 bln RUB.

VTB Bank provided a facility to IDGC of Centre in the amount of 4 bln RUB.

IDGC of Centre and NLMK

On July 04, 2013, the Moscow District Federal Court overruled the claim of JSC NLMK to recover 5.1 bln RUB from IDGC of Centre and recognized the claims of the metallurgical works as frivolous.

In October 2011, Joint-stock Company Novolipetsky Metallurgical Works (hereinafter NLMK) filed a claim with the Moscow Commercial Court to recover 9 bln RUB transferred to IDGC of Centre in 2008-1011 for the purposes of payment for power transmission services. NLMK alleged that the power transmission services contract dd. 2005 signed by NLMK and JSC Lipetskenergo with regard to the Severnaya, Novaya and Metallurgicheskaya substations was terminated due to the fact those services could no longer be rendered, as IDGC of Centre (successor of JSC Lipetskenergo) had no legal grounds for owning the electrical equipment involved in the power transmission.

During the course of legal proceedings, the claim of NLMK was reduced to 5.1 bln RUB. The court ruling dd. October 17, 2012 satisfied the claims of NLMK to recover 5.1 bln RUB. The court of appeal's resolution dd. March 21, 2013, left the ruling unchanged.

However, on July 4, 2013, the Moscow District Federal Court satisfied the cassation appeal of IDGC of Centre and denied NLMK recovery of the full amount of funds. The court ruling was based on the fact that NLMK did not deny having received electrical energy and power transmission services during the disputed period. According to contractual relations, it was IDGC of Centre that rendered power transmission services for NLMK during the disputed period. Furthermore, the plaintiff did not initiate contract termination, the parties were signing acceptance reports for the electrical energy and NLMK was paying for the services under the set tariffs.

NLMK filed an application with the Supreme Commercial Court to review the claim in exercise of supervisory power, however, the court decision dd. October 18, 2013 ruled against reviewing the claim.

Case background:

Being a purchaser of electrical energy and capacity and having the status of a wholesale market participant, NLMK signed an agreement on joining the wholesale market trading system. In order to carry out its operations, NLMK needs to receive electrical energy through the Severnaya, Metallurgicheskaya and Novaya substations, which belong to JSC FGC on the basis of title thereto. The electrical grid equipment of these substations, to which the power installations of NLMK are directly connected, was initially subleased to JSC Lipetskenergo, the successor of which is IDGC of Centre.

On July 01, 2008, JSC FGC was restructured and merged JSC ITGC of Centre, and as a result the lessor and lessee under the primary leasing contract became one and the same entity. This fact served the basis for terminating the above-mentioned contract. In 2010, JSC FGC started reconstruction of the Severnaya substation. A new substation with the same name was built on the new land.

On February 28, 2011 NLMK submitted a request to sign a direct power transmission services contract with JSC FGC on the ground that the equipment of the new Severnaya substation was not leased by IDGC of Centre. After receiving a rejection from JSC FGC to sign a direct contract, NLMK filed a lawsuit to make JSC FGC sign this contract.

On February 10, 2012, the Moscow Commercial Court ruled in favor of the claim of NLMK and made JSC FGC sign the power transmission services contract effective on April 1, 2011.

INCOME STATEMENT

The revenues of IDGC of Centre in 2013 totaled 92.9 bln RUB, which is higher than the income received in 2012 by 33.9%.

This positive change is stipulated by the fact that the Company started to fulfill the functions of a supplier of last resort in 2013 in 5 territorial entities, i.e. the Bryansk, Kursk, Orel, Tver and Smolensk Regions. Power sales companies in these regions were deprived of the status of wholesalers in the reporting year, and the Russian Ministry of Energy handed these functions over to IDGC of Centre.

In this context, the Company's revenue structure for 2013 includes income from selling electrical energy to end consumers.

Due to the emergence of a new type of operations, figures in the 'Revenue from power transmission' item may not be compared with the figures of the previous years. Due to accounting peculiarities on the territory of the branches fulfilling the functions of suppliers of last resort, the income from electrical energy sales actually includes a part of the Company's revenues from power transmission services in the amount of 13.8 bln RUB received in these regions.

The revenue from power transmission services in relative conditions in 2013 amounts to 75.2 bln RUB with an 11.4% growth vs. 2012. The share of revenue from these operations equals 80.9% from the total income of the Company.

The revenue from the new operations, i.e. electrical energy sales, totaled 29.8 bln RUB in 2013. Income from grid connection services decreased by 25.0% to bln 0.9 RUB vs. 2012.

+33.9%

Growth of the revenue in 2013

+11.4%

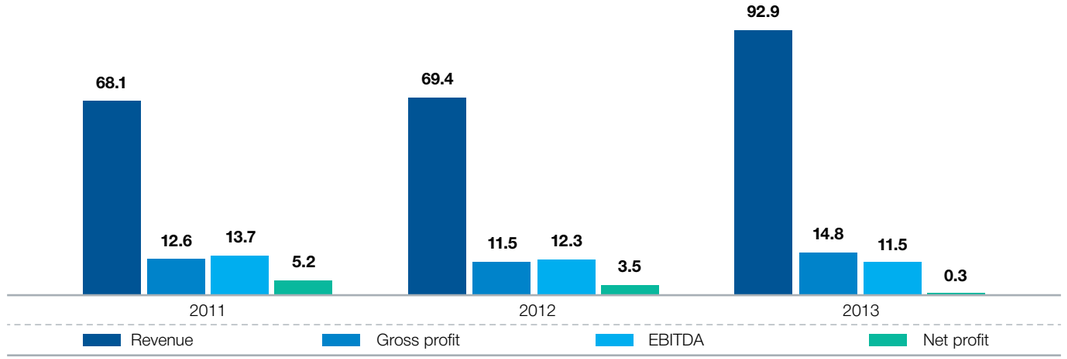
Growth of the revenue from power transmission in 2013

CHANGE IN KEY ECONOMIC INDICATORS IN 2011-2013, bln RUB:

Indicator	2011	2012	2013	Change 2013/2012, %
Revenues	68.1	69.4	92.9	33.9%
of which:				
power transmission	65.7	67.5	61.4	-9.0%
grid connection	1.7	1.2	0.9	-25.0%
electrical energy sales**	–	–	29.8	–
other	0.7	0.7	0.8	14.3%
Cost	55.5	57.9	78.1	34.9%
Gross profit	12.6	11.5	14.8	28.7%
EBITDA	13.7	12.3	11.5	-6.5%
Net profit	5.2	3.5	0.3	-91.4%
of which:				
power transmission	3.7	2.4	-1.0	-41.7%
grid connection*	1.2	0.7	0.5	-28.6%
electrical energy sales	–	–	0.4	–
other	0.3	0.4	0.4	–

* Obligations on grid connection included in financial reports as net profit.
** The indicator's amount includes a part of revenue from power transmission.

CHANGE IN FINANCIAL INDICATORS IN 2011 – 2013, bln RUB:



EBITDA in 2011-2013 decreased from 13.7 bln RUB to 11.5 bln RUB. This change was primarily caused by the creation of the following provisions:

- A 7 bln RUB provision for bad debt relating to power transmission services of power sales companies which were deprived of the status of suppliers of last resort in the reporting year.
- A 3.6 bln RUB provision for unregulated receivables relating to disputes with contractors.

The cost in 2013 totaled 78.1 bln RUB, which is 20.2 bln RUB higher than the figure of 2012. The growth of cost was partly associated with the fulfillment of functions of a supplier of last resort, however, the Company managed to maintain the controllable expenses growth rate at the level of 4%, which is lower than the inflation growth rate, by implementing a cost management program.

Net profit of IDGC of Centre in 2013 totaled 0.3 bln RUB. The reduction in net profit in comparison with the previous year is associated with the creation of a mandatory provision for bad debt, i.e. receivables for the power transmission services of the sales companies, which were deprived of the status of suppliers of last resort.

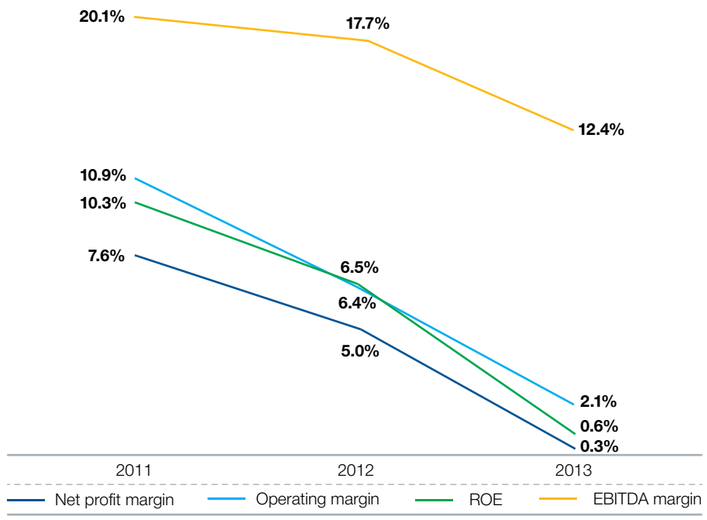
The decision on profit distribution will be made on the Annual General Meeting of Shareholders subject to recommendations of the Company's Board of Directors.

FINANCIAL STRENGTH

KEY FINANCIAL RATIOS FOR 2011-2013:

Indicator	2011	2012	2013	Change 2013/2012, %
Absolute ratio	0.247	0.067	0.074	10.4%
Acid test ratio	1.08	1.06	1.04	- 1.9%
Current ratio	1.23	1.16	1.19	2.6%
Gross profit margin, %	18.6	16.6	15.9	- 0.7 ppt
Net profit margin, %	7.6	5.0	0.3	- 4.7 ppt
Operating profitability, %	10.9	6.5	2.1	- 4.4 ppt
ROE, %	10.3	6.4	0.6	- 5.8 ppt
EBITDA margin, %	20.1	17.7	12.4	- 5.3 ppt
ROTA, %	9.5	4.9	1,9	- 3 ppt
Equity ratio	0.59	0.54	0.50	- 7.4%
Total debt to EBITDA ratio	1.6	2.2	2.9	33.6%
Current assets coverage ratio	0.18	0.14	0.16	14.2%

THE DYNAMICS OF THE FINANCIAL PERFORMANCE OF IDGC OF CENTRE IN 2011-2013, bln RUB:



Reduction of the net profit of IDGC of Centre by 91.4% in 2013 had an adverse effect on the Company's financial indicators.

Net profit margin shrank from 5.0% in 2012 to 0.3% in 2013, EBITDA margin – from 17.7% to 12. 4%. ROE went down from 6.4% in 2012 to 0.6% in 2013.

Apart from the creation of provisions for bad debts, the primary causes of the negative change included:

- A 10.4% increase of tariffs on power transmission services rendered by JSC FGC UES.
- Growth of tariffs of the territorial grid companies.
- A 19.6% increase of electrical energy purchase prices, which is acquired in order to compensate for the power losses in the Company's grids.

Current liquidity ratio of IDGC of Centre stood at 1.16 as of December 31, 2012 and at 1.19 as of December 31, 2013, which proves that the Company is financially stable and able to fulfill its liabilities.

Absolute liquidity ratio, which demonstrates the Company's ability to discharge long-term debt, stood at 0.074 at the end of 2013, which is 10.4% higher than the figure of the previous year. The acid test ratio in the reporting period amounted to 1.04 with a 1.9% reduction vs. 2012. Nevertheless, despite a certain reduction, the figure remained within the normal limits.

In 2013 equity ratio also had a permissible value of 0.5.

Current assets of IDGC of Centre in 2013 remained on the level of 2012 and amounted to 16.5 bln RUB. The current assets coverage ratio grew by 14.2% to 0.16 vs. 2012.

ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE IN 2011-2013, bln RUB:

Indicator	2011	2012	2013	Change 2013/2012, %
Current assets, bln RUB	12.7	16.4	16.5	-
Accounts receivable, bln RUB	8.3	13.5	13.0	- 0.5%
Ratio of receivables to current assets, %	65.2	82.0	79.1	- 2.9 ppt
Current assets/short-term debt	1.22	1.16	1.19	0.03 p.
Accounts payable, bln RUB	7.7	11.0	10.7	- 2.9
Ratio of receivables to payables growth rate	1.0	1.1	1.0	- 0.1
Ratio of total receivables to payables	1.1	1.2	1.2	-
Ratio of the most liquid receivables to payables	1.6	2.2	1.8	- 0.4

STRUCTURE OF RECEIVABLES OF IDGC OF CENTRE IN 2013, %:

	%
Buyers and customers	85.0%
Advanced paid	1.3%
Other debtors	13.7%

STRUCTURE OF PAYABLES OF IDGC OF CENTRE IN 2013, %:

	%
Suppliers and contractors	58.1%
Outstanding payroll	0.1%
Non-budgetary funds	2.9%
Tax and duty debt	7.4%
Advances received	19.1%
Dividends payable	0.2%
Other creditors	12.2%

The amount of accounts receivable declined insignificantly from 13.5 bln RUB in 2012 to 13.0 bln RUB in 2013. The share of receivables in current assets did not change significantly either.

The primary reason for the emergency of accounts receivables of IDGC of Centre is the violation of payment terms by the sales companies. Nevertheless, IDGC of Centre fulfills its obligations to suppliers and contractors in accordance with the contract terms and conditions.

Large amounts of accounts receivable is a peculiarity of distribution grid companies. IDGC of Centre devotes significant effort to controlling debt for power transmission services: the Company monitors changes in receivables on a monthly basis in order to control the fulfillment of contractual obligations by contractors as far payments to the Company are concerned.

Should receivables emerge with a term of over 30 days, the company takes measures aimed at recovering these receivables.

In order to control accounts receivable for power transmission services, IDGC of Centre submits an accounts receivable recovery schedule plan for the next three months to the Company's Board of Directors on a quarterly basis and subsequently reports to the Board of Directors on the fulfillment of the schedule.

CAPITAL AND BORROWING POLICY OF THE COMPANY

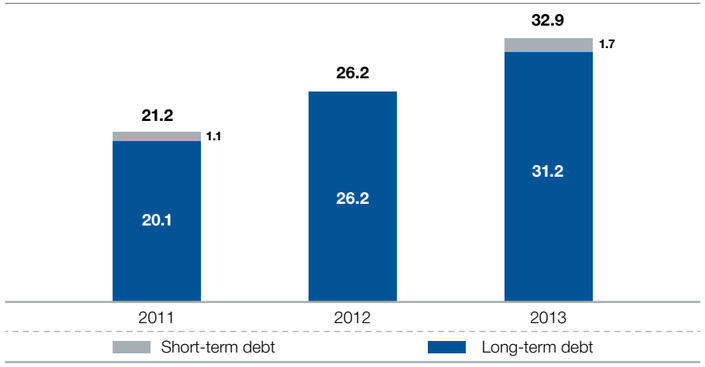
IDGC OF CENTRE CAPITAL STRUCTURE IN 2011-2013, bln RUB:

Indicator	2011	2012	2013	Change 2013/2012, %
Equity	50.5	53.5	53.0	- 0.9
Borrowed capital	34.6	45.6	52.0	14.0
Of which:				
loans and credits	21.2	26.4	33.1	25.4
accounts payable	7.7	11.0	10.7	- 2.7
Leverage, %	41	46	50	4 ppt
Cash at end of period	2.6	0.95	1.03	8.4
Net debt	18.7	25.5	32.0	25.5
Equity to debt ratio	1.5	1.2	1.0	- 0.2 p.

The equity of IDGC of Centre in 2013 totaled 53.0 bln RUB, or 50% of the whole capital of the Company. A slight reduction in equity of the Company by 0.5 bln RUB in absolute terms was caused by the reduction of the financial performance in 2013 by 91.4%.

The Company's financial policy, which has been implemented since 2009, aims to replace short-term borrowing with long-term loan resources. The amount of long-term liabilities in 2013 grew to 36% of the total amount of the Company's capital, whereas the figures for 2012 and 2011 were 32% and 28% respectively. The capital structure changed primarily because of IDGC of Centre's assumption of long-term loan resources to finance the investment program.

CHANGE IN DEBT ON LOANS IN 2011-2013, bln RUB:



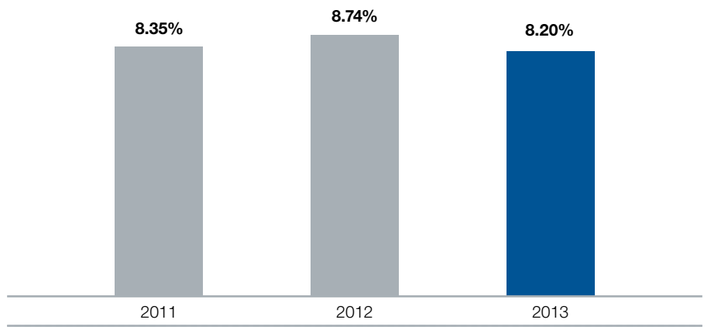
Summarizing the results of financial and utility-related operations in 2013, the share of short-term liabilities in total liabilities did not change significantly and amounted to 13% as of December 31, 2013. A slight drop took place because of reduction in accounts payable.

The financial policy of IDGC of Centre puts primary emphasis on long-term borrowings. In this respect, the maximum term of credits borrowed in the reporting year amounted to 60 months.

IDGC OF CENTRE CREDIT AND LOAN PAYMENT SCHEDULE AS OF DECEMBER 31, 2013, bln RUB:

Indicator	Principal payment	Interest payment
Due within 12 months	1.7	0.13
Due in one to five years	28.2	-
Due in over five years	3.0	-
TOTAL	32.9	0.13

AVERAGE BORROWING RATE IN 2011-2013, %:



DIVERSIFIED STRUCTURE OF THE LOAN PORTFOLIO OF IDGC OF CENTRE IN 2013 (BONDS NOT INCLUDED):

	%
Sberbank of Russia	51%
VTB Bank	29%
Rosbank	13%
Alfa-Bank	7%

The growth of debt on loans in 2013 equaled 25.5%, or 6.7 bln RUB vs. 2012, when this figure amounted to 19.2%, or 5.1 bln RUB, vs. 2011.

IDGC of Centre is not past due on principal or interest.

The average borrowing rate for IDGC of Centre as of December 31, 2013 was 8.2%. The reduction of the average rate by 0.54 ppt vs. 2012 was caused by the measures taken by the Company to reduce the cost terms and conditions of borrowings.

IDGC of Centre borrows credit resources and funds without security.

IDGC of Centre is diversifying its loan portfolio to minimize potential risks; it borrows mainly from large and highly reliable Russian banks. IDGC of Centre does most of its borrowing from Sberbank of Russia, VTB Bank, and Rosbank.

In 2012, IDGC of Centre issued Series BO-01 three-year traded bonds totaling 4 bln RUB at the par value as a continuation of its financial policy and in an effort to borrow at a more favorable rate.

The bonds are traded on Moscow Stock Exchange in the second tier A listing. The first and second coupon payments on bonds were made in full in 2013.

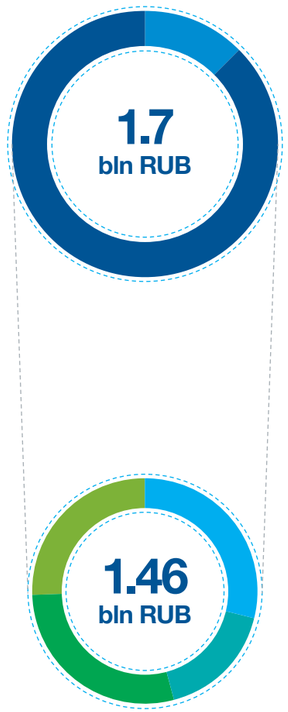
For details on traded bonds please see page 155 of the Annual Report and visit our corporate website at: http://www.mrsk-1.ru/en/investors/securities/bonds/.

02

COST MANAGEMENT PROGRAM

IDGC of Centre has been successfully implementing a cost management program (CMP) for already several years, thus increasing the efficiency of its core operations. The effect of measures taken in 2013 under CMP amounted to 1.7 bln RUB, of which 1.5 bln RUB were saved as a result of reducing the Company's expenses.

RESULT OF COST MANAGEMENT PROGRAM IN 2013:



253.4 mln RUB
Revenue increase result

1,455.8 mln RUB
Cost cutdown result

included:

421.9 mln RUB
Energy losses

246.2 mln RUB
Result of other activity

417.2 mln RUB
Payroll expenses

370.5 mln RUB
Operating expenses

REVENUE INCREASE RESULT

Efficient work to identify off-the-meter, freelance electricity use, inclusion of off-the-meter consumption in net supplies, fulfillment of the prospective power meteing system program

COST CUTDOWN RESULT:

Energy losses

Energy losses were reduced by:
› Implementing a program of power metering system (47.9 mln kWh) prospective development.
› Carrying out measures related to off-the-meter and freelance power usage (133.6 mln kWh).
› Implementing energy effcient measures in power consumption for the Company's needs and for industrial purposes

Result of other activity

Maximum result achieved on non-operating activities through:
› Offsetting fines and penalties for contract violations by subsidiary partners (28 mln RUB).
› Writing off payables exceeding three years (204.2mln RUB)

Payroll expenses

Through the natural movement of the Company's personnel, workforce management and hiring freezes

Operating expenses

› Reduction of expenses on rent, consulting and transport services.
› Optimization of business travel and entertainment expenses

The IDGC of Centre balance sheet and income statement for 2013, along with the audit report on the financial statements of the Company for 2013 can be found in Appendix 1 to the Annual Report. The complete financial reports may be found on our corporate website at http://www.mrsk-1.ru/en/information/statements/rbsu/2013/.

Additional information on financial indicators of the Company is provided in Appendix 2 to the Annual Report and on the Company corporate website at http://www.mrsk-1.ru/en/investors/indicators/operating-results/index.php.

CREDIT RATINGS

STANDART & POOR'S CREDIT RATING:

IDGC of Centre is one of the few power grid companies to receive an international credit rating. Standard & Poor`s upgraded the Company's rating in February 2013 by one point to "BB" with a "Stable" outlook.

The Company has been maintaining its credit rating history since 2009.

Due to the revision of the credit rating outlook for the Russian Federation in March 2014, Standard & Poor`s lowered the outlook for IDGC of Centre from "Stable" to "Negative" when confirming its credit rating at the "BB" level.

CREDIT RATING HISTORY SINCE 2009:

Long-term credit rating on international scale	Outlook	Period	Status	Short-term credit rating on international scale	Long-term credit rating on national scale
BB	Negative	03'2014	Confirmed	B	ruAA
BB	**Stable**	**02' 2013**	**Assigned**	**B**	**ruAA**
BB-	Stable	05' 2012	Confirmed	B	ruAA-
BB-	Stable	02' 2011	Confirmed	B	ruAA-
BB-	Stable	07' 2010	Confirmed	B	ruAA-
BB-	**Stable**	**11' 2009**	**Assigned**	**B**	**ruAA-**

NRA CREDIT RATING:

Besides, IDGC of Centre has a national rating of "AA" (Very High Reliability, Level 2), assigned by the National Rating Agency (NRA).

CREDIT RATING HISTORY SINCE 2007:

Credit rating on the national scale		Period	Status
AA	Very High Credit Quality Level 2	12' 2013	Confirmed
AA	**Very High Credit Quality Level 2**	**04' 2013**	**Assigned**
AA-	Very High Credit Quality Level 3	09' 2012	Confirmed
AA-	Very High Credit Quality Level 3	12' 2011	Confirmed
AA-	**Very High Credit Quality Level 3**	**12' 2010**	**Assigned**
A+	High Credit Quality Level 1	10' 2010	Confirmed
A+	High Credit Quality Level 1	09' 2009	Confirmed
A+	**High Credit Quality Level 1**	**09' 2008**	**Assigned**
A	**High Credit Quality Level 2**	**08' 2007**	**Assigned**

For details on the history of credit ratings, please visit our corporate website at http://www.mrsk-1.ru/en/investors/indicators/credit-rates/.

REVIEW OF FINANCIALS UNDER IFRS

KEY IDGC OF CENTRE FINANCIALS UNDER IFRS FOR 2012-2013, mln RUB:

Indicator	2012*	2013	Change 2013/2012, %
Revenue	69,984.0	93,296.5	33.3%
Of which:			
power transmission	67,486.8	61,396.2	-9.0%
grid connection	1,365.0	1,063.2	-22.1%
electrical energy and capacity resale	-	29,770.0	100.0%
other revenue	1,132.2	1,067.1	-5.7%
Cost of services	(63,073.0)	(91,228.1)	44.6%
Operating result	7,780.4	3,395.4	-56.4%
EBITDA**	15,228.8	11,325.0	-25.6%
Pretax profit	5,927.0	1,048.6	-82.3%
Net financial expenses	1,853.4	2,346.8	26.6%
Profit for the reporting period	4,585.2	266.2	-94.2%
Basic and diluted EPS, RUB	0.108	0.006	-94.4%
Net asset value	42,641.5	41,754.0	-2.1%
Net debt	25,531.2	32,004.7	25.4%
Net debt/EBITDA margin	1.7	2.8	1.1 p.
ROE, %	10.8	0.6	-10.2 ppt
EBITDA margin, %	21.8	12.1	-9.7 ppt
Net sales margin, %	6.6	0.3	-6.3 ppt

* Here and below, the indicators for 2012 have been adjusted due to the Company's application of IFRS (IAS) 19 (amendment 2011) regarding its pension plan with the established payments.
** The indicator was calculated on the basis of the formula: profit for the period + income tax expenses + interest payable – interest receivable + depreciation

The consolidated financial statements of IDGC of Centre for 2013, prepared in accordance with international standards, may be found on the Company website at http://www.mrsk-1.com/common/upload/docs/FS_IFRS_JSC_IDGC_of_Centre_2013_eng_S.pdf.

ANALYSIS OF THE COMPANY'S FINANCIALS UNDER IFRS

THE COMPANY'S REVENUES

In 2013, in accordance with the Orders of the Russian Ministry of Energy on Transferring the Functions of a Supplier of Last Resort, IDGC of Centre was assigned with the functions of a supplier of last resort in the Bryansk, Orel, Kursk, Tver and Smolensk Regions. Thus, besides power transmission services, separate Company's divisions rendered the services of selling electrical energy in the reporting period, including purchase of electrical energy on the wholesale market and its subsequent sale on the retail market, conclusion of power supply and power sales contracts with all consumers, including the public. Hence, the Company's revenues for 2013 include income received from a new type of operations, i.e. revenues from reselling electrical energy and capacity.

The total Company's revenue in the reporting period grew by 23,312.5 mln RUB, or by 33.3% versus the same indicator for 2012.

The revenues from reselling electrical energy and capacity includes a part of the revenues in the amount of 13,785.3 mln RUB which relates to power transmission services rendered under power supply contracts. Revenues of IDGC of Centre from power transmission for 12 months of 2013 excluding the new type of operations amounted to 75,181.5 mln RUB, which is 11.4% higher than in 2012. (67,486.8 mln RUB). The primary cause of the positive change was the increase of the average tariff by 141 RUB/thous. kWh.

The revenues from reselling electrical energy and capacity adjusted to the amount of revenue from power transmission services equaled 15,984.7 mln RUB.

The reporting year saw an expected decline of revenues from grid connection services by 301.8 mln RUB, or 22.1%, to 1,063.2 mln RUB.

IDGC OF CENTRE REVENUES IN 2012-2013, mln RUB and %:

	2012		2013		Change 2013/2012, %		
Indicator	mln RUB	% of total	mln RUB	% of total	mln RUB	%	% of total, ppt
Power transmission services	67,486.8	96.4%	61,396.2	65.8%	-6,090.6	-9.0%	-30.6 ppt
Revenue from reselling electrical energy and capacity	-	-	29,770.0	31.9%	29,770.0	100.0%	31.9 ppt
Grid connection services	1,365.0	2.0%	1,063.2	1.1%	-301.8	-22.1%	-0.9 ppt
Repair and maintenance services	127.6	0.2%	469.8	0.5%	342.2	268.2%	0.3 ppt
Lease payments	61.4	0.1%	55.1	0.1%	-6.3	-10.3%	-
Other revenues	943.2	1.3%	542.2	0.6%	-401.0	-42.5%	-0.7 ppt
Revenues, total	69,984.0	100.0%	93,296.5	100.0%	23,312.5	33.3%	-

OPERATING EXPENSES

OPERATING EXPENSES OF IDGC OF CENTRE IN 2012-2013, mln RUB and %:

	2012		2013		Change 2013/2012, %		
Indicator	mln RUB	% of total	mln RUB	% of total	mln RUB	%	% of total, ppt
Power transmission	24,132.1	38.3%	27,179.9	29.8%	3,047.8	12.6%	- 8.5 ppt
Power resale	-	-	14,479.9	15.9%	14,479.9	100.0%	15.9 ppt
Power purchase	8,684.1	13.8%	9,073.8	9.9%	389.7	4.5%	-3.9 ppt
Payroll	13,990.3	22.2%	15,364.9	16.8%	1,374.6	9.8%	- 5.4 ppt
Allowance for devaluation of receivables	561.2	0.9%	8,581.0	9.4%	8,019.8	1,429.0%	8.5 ppt
Depreciation	7,448.4	11.8%	7,929.6	8.7%	481.2	6.5%	-3.1 ppt
Raw materials and supplies	2,376.6	3.8%	2,482.2	2.7%	105.6	4.4%	-1.1 ppt
Other	5,880.3	9.2%	6,136.8	6.8%	256.5	4.4%	-2.4 ppt
Operating expenses, total	63,073.0	100.0%	91,228.1	100.0%	28,155.1	44.6%	-

In 2013, IDGC of Centre expenses increased by 28,155.1 mln RUB, or 44.6% vs. 2012. The main factors that affected the growth in the Company's expenses were:

- inclusion of a new item, i.e. Electricity Resale, (14,479.9 mln RUB) in the reports due to the fulfillment of functions of a supplier of last resort by IDGC of Centre in 5 regions;
- generation of provisions for accounts receivable (8,581.0 mln RUB). The amount of 6,197.8 mln RUB of the total amount of the allowance for devaluation of receivables recognized in 2013 refers to the devaluation of trading receivables associated with regional sales enterprises which were deprived of their status of suppliers of last resort, the fact leading to the loss of operations and to insolvency. The rest of the impairment loss refers primarily to the disputes with other regional sales enterprises.
- Power transmission occupies the major share in the structure of the Company's expenses in 2013, which amounts to 29.8%. The new expense item, i.e. Electricity Resale accounted for 15.9% of expenses in the reporting year.
- The share of expenses on electricity purchase decreased by 3.9 ppt to 9.9%, whereas the share of payroll expenses increased by 5.4 ppt to 16.8%. The share of depreciation costs shrank by 3.1 ppt to 8.7%. A significant share in the structure of expenses in the reporting year was occupied by the allowance for devaluation of receivables – 9.4%, a 8.5. ppt growth vs. 2012.

STRUCTURE OF IDGC OF CENTRE EXPENSES IN 2013 UNDER IFRS, %:

	%
Power transmission	**29.8%**
Electricity resale	**15.9%**
Electricity purchase	**9.9%**
Allowance for devaluation of receivables	**9.4%**
Payrol	**16.8%**
Depreciation	**8.7%**
Raw materials and supplies	**2.7%**
Other	**6,8%**

Power transmission

The Company's expenses on power transmission in 2013 grew by 3,047.8 mln RUB, or 12.6% vs. the previous year. This trend is connected with an increase of expenses on the services provided by the territorial grid companies (TGC) and on the services rendered by JSC FGC UES relating to power transmission through UNPG grids.

Electricity resale

A new expense item, i.e. Electricity Resale, appeared in 2013 due to the assignment of functions of a supplier of last resort to IDGC of Centre in the Bryansk, Orel, Kursk, Tver and Smolensk Regions. Expenses on this item in 2013 amounted to 14,479.9 mln RUB.

Electricity purchase

Expenses on electricity purchases to compensate losses in the reporting year increased by 389.7 mln RUB, or 4.5% in 2013.

Depreciation

Depreciation of fixed assets grew in 2013 by 481.2 mln RUB, or 6.5% due to the implementation of the investment program and commissioning of new capacities.

Payroll expenses

Payroll expenses grew by 1,374.6 mln RUB, or 9.8%, in the reporting year, primarily, due to the fact that IDGC of Centre started to fulfill the functions of a supplier of last resort at Bryanskenergo, Kurskenergo, Orelenergo, Smolenskenergo and Tverenergo branches and also due to the employees' payroll indexation in 2013.

The regular personnel list for production and nonproduction areas of business in 2013 amounted to 31,963 people (31,177 people in 2012).

IDGC OF CENTRE PAYROLL EXPENSES IN 2012-2013, mln RUB and %:

	2012		2013		Change 2013/2012, %	
Indicator	mln RUB	% of total Company's expenses	mln RUB	% of total Company's expenses	mln RUB	%
Wages	9 589,7	15,2%	10 301,0	11,3%	711,3	7,4%
Provisions to State Pension Fund	2 191,2	3,4%	2 298,5	2,5%	107,3	4,9%
Revaluation of other long-term payments	0,4	0,0%	0,2	0,0%	-0,2	-5,0%
Insurance premiums	607,8	1,0%	685,7	0,7%	77,9	12,8%
Financial aid to workers and pensioners	487,3	0,8%	145,0	0,1%	-342,3	-70,2%
Labor costs of current period	79,6	0,1%	88,7	0,1%	9,1	11,4%
Carry-over vacation time	365,3	0,6%	1 164,8	1,3%	799,5	218,9%
Management bonus reserve	286,4	0,5%	178,7	0,2%	-107,7	-37,6%
Labor costs of previous periods	(65,9)	-0,1%	(0,1)	0,0%	65,8	-99,8%
Other payroll costs	448,5	0,7%	502,4	0,6%	53,8	12,0%
Payroll expenses, total	13 990,3	22,2%	15 364,9	16,8%	1 374,6	9,8%

Other expenses

	2012		2013		Change 2013/2012, %	
Indicator	mln RUB	% of total Company's expenses	mln RUB	% of total Company's expenses	mln RUB	%
Lease payments	582,1	0,9%	689,8	0,8%	107,7	18,5%
Taxes, except for income tax	377,4	0,6%	667,2	0,7%	289,8	76,8%
Installation, repair and maintenance services	534,7	0,8%	580,4	0,6%	45,7	8,5%
Power for utility needs	399,3	0,6%	358,2	0,4%	-41,1	-10,3%
Private security services	278,2	0,4%	305,4	0,3%	27,2	9,8%
Information services	261,9	0,4%	261,7	0,3%	-0,2	-0,1%
Insurance	126,0	0,2%	131,5	0,1%	5,5	4,4%
Consulting, legal and auditing services	90,5	0,1%	129,6	0,1%	39,1	43,2%
Telecommunication services	50,2	0,1%	52,2	0,1%	2	4,0%
Recognized contingencies	467,8	0,7%	26,7	0,0%	-441,1	-94,3%
Transport costs	67,0	0,1%	14,8	0,0%	-52,2	-77,9%
Special purpose and membership fees	1,5	0,0%	6,1	0,0%	4,6	306,7%
Bad debt charge off	15,7	0,0%	3,7	0,0%	-12,0	-76,4%
Other expenses	2 628,0	4,2%	2 909,6	3,2%	281,6	10,7%
Other expenses, total	5 880,3	9,2%	6 136,8	6,8%	256,5	4,4%

EBITDA

EBITDA in 2013 amounted to 11,325.0 mln RUB. The reduction of EBITDA by 3,903.8 mln RUB, or 25.6% vs. 2012 is stipulated by the generation of provisions for bad debt relating to the power transmission services of the sales companies deprived of the status of suppliers of last resort. Adjusted EBITDA amounted to 19,687.1 mln RUB in the reporting year, which is 26.3% higher than in 2012 (15,589.6 mln RUB). The difference between the reported and adjusted figures is explained by the fact of taking into account the following non-monetary operations: generation of the allowance for devaluation of receivables and adjustment of the deferred income tax.

PROFIT

The Company's profit in 2013 amounted to 266.2 mln RUB. A 94.2% reduction of profit vs. 2012 is primarily stipulated by the necessity of generating an allowance for devaluation of receivables in the amount of 8,581.0 mln RUB relating to the power transmission services of the power sales companies deprived of a status of suppliers of last resort.

IDGC of Centre operations concerning power transmission and grid connection of new consumers to electrical grids are regulated by the state, with the executive bodies responsible for the state regulation of tariffs setting the relevant rates.

The Federal Tariff Service (FTS)

sets the limit on the minimum and/or maximum tariffs on power transmission services for territorial grid companies and tariffs on power transmission services for the Unified State Power Grid (services of JSC FGC UES)

Governments of the territorial entities of the Russian Federation responsible for the state regulation of tariffs (Regional Energy Commission, REC)

set tariffs on the electrical grid power transmission services in each particular territorial entity within the set limits. RECs are also responsible for setting the cost of grid connection to the distribution electrical grids and sales markups of the suppliers of last resort

TARIFFS FOR GRID CONNECTION

An economically reasonable cost, or 'cost plus', method for setting tariffs for all grid companies was used prior to 2009, but IDGC of Centre switched to the Regulatory Asset Base (RAB) method on January 1, 2009, based on the return on invested capital.

Starting from January 1, 2011, state regulation of tariffs on power transmission services for the territorial grid companies has been carried out solely by setting long-term tariffs based on the long-term parameters for regulating operations of such companies.

In 2013, two methods for setting tariffs on power transmission services at all branches of IDGC of Centre were used:
- RAB regulation;
- Long-term indexation of gross returns.

RAB- REGULATION (8 BRANCHES)	Starting 01.01.2009 › Belgorodenergo Starting 01.01.2010 › Kurskenergo › Yarenergo Starting 01.11.2010 › Orelenergo	Starting 01.01.2011 › Voronezhenergo › Kostromaenergo › Smolenskenergo › Tambovenergo
LONG-TERM INDEXATION OF THE REQUIRED GROSS REVENUE (3 BRANCHES AND 1 SUBSIDIARY)	› Bryanskenergo › Lipetskenergo	› Tverenergo › JSC Yargorelectroset

INFORMATION ON THE METHODS APPLIED BY IDGC OF CENTRE FOR SETTING TARIFFS ON POWER TRANSMISSION SERVICES:

Method of setting the tariff at IDGC of Centre	RAB-regulation	Long-term indexation of the required gross revenue
Required gross revenue (RGR) is established in accordance with:	Procedural Guidelines approved by Order No. 228-e dd. March 30, 2012 of the FTS of Russia	Procedural Guidelines approved by Order No. 98-e dd. February 17, 2012 of the FTS of Russia
RGR includes:	› Expenses associated with the production and sale of products (services) that refer to the regulated operations (controlled and uncontrolled expenses). › Money for shareholder funds and borrowed capital. › Income on invested capital. › Evening-out. › Adjustment of RGR	› Controllable expenses (OPEX), including dividends, cost of collective agreements, and other expenses paid out of profit. › Uncontrollable expenses that include depreciation, expenses on repayment and maintaining borrowed funds and capital investment out of profit. › Adjustment of RGR
The long-term indicators for regulation that are used to calculate the RGR:	› Base level of operating expenses. › Operating expenses effectiveness index. › Amount of invested capital. › Net working capital. › Rate of return for invested capital. › Invested capital return period. › Elasticity of controllable expenses to amount of assets. › Technological loss ratio approved by the Russian Ministry of Energy. › Reliability and quality of goods (services) sold	› Base level of controllable expenses. › Effectiveness index of controllable expenses. › Elasticity of controllable expenses to amount of assets. › Amount of technological losses of electricity. › Reliability and quality of goods (services) sold

The RAB-regulation method ensures the return of money invested in the Company's assets in a certain period and generation of a certain rate of return. FTS determines the rate of return for new capital, while the RECs set the rate of return for old capital, which must conform to the level of risk of investing in the grid business and make the company appealing to investors.

Events in 2013:

In 2013, the regulatory bodies revised the long-term parameters for regulating operations of those territorial grid companies undergoing the long-term indexation of RGR and collecting revenues from power transmission services of at least 500 mln RUB, following the Decree of the Russian Federation Government.[7]

These changes affected the IDGC of Centre branches, i.e. Lipetskenergo and Tverenergo. The estimated OPEX for 2014 was approved without significant changes as compared to OPEX level for 2013. A slight reduction in the base level of OPEX is stipulated by changes of the inflation index and of the number of actual standard units of equipment as compared those taken into account in calculations earlier.

The average tariff of power transmission services for IDGC of Centre in 2013 amounted to 141.52 kopecks per kWh, which is 10.2% higher than in 2012.

AVERAGE JOINT OPERATION TARIFFS ON POWER TRANSMISSION SERVICES IN 2009-2013, kopecks/kWh:

	2009	2010	2011	2012	2013
Average tariff on power transmission services	91.55	111.23	126.55	128.37	141.52
Increase, %	22.1%	21.5%	13.8%	1.4%	10.2%

The average tariff on power transmission services is calculated as the ratio of planned required gross revenue (RGR) on power transmission to planned net power supply.
The 'planned' values are the values approved by the executive organs responsible for regulating the tariffs in the territorial entities of the Russian Federation.

According to the terms and conditions of social and economic development scenario of the Russian Federation approved by the Government, a 10% indexation of tariffs for the grid companies was established starting from July 1, 2013.

However, as far as IDGC of Centre is concerned, the increase was slightly higher – 10.2%.

For details on the average tariffs on power transmission services by IDGC of Centre branches in 2009-2013 please see Appendix 2 to the Annual Report.

THE INCREASE IN TARIFF GROWTH IN EXCESS OF THE SCENARIO FRAMEWORK IN A NUMBER OF BRANCHES WAS STIPULATED BY THE FOLLOWING FACTORS:

VORONEZHENERGO

15.5%
Tariff growth

by the REC's establishment of tariffs on power transmission services on the level higher than the maximum permissible level set by the FTS at the expense of the investment program at Voronezhenergo (a 15.5% increase of the average tariff).

SMOLENSKENERGO

11.7%
Tariff growth

by the revision of tariff-related decisions in accordance with Government Decree No. 403 dd. May 8, 2013 On Amending Certain Acts of the Russian Federation Government Relating to the Issues of Operation of the Territorial Grid Companies, as described above, at Smolenskenergo (a 11.7% increase of the average tariff). Unified joint operation tariffs on power transmission services for other consumers in the Smolensk Region were revised starting from September 1, 2013, and increased by 2.58%.

TAMBOVENERGO

13.9%
Tariff growth

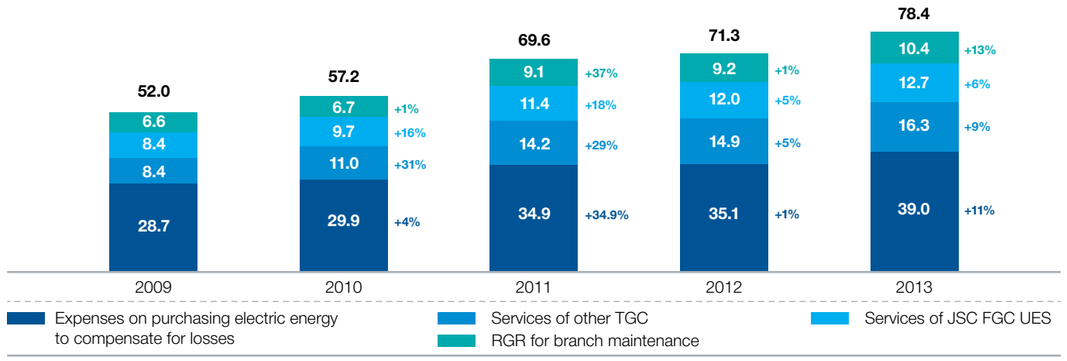
by the revision of the RGR due to the inclusion of 'shortfall in income' into the RGR as a result of managing disagreements with the Department of Tariff Regulation for the Tambov region at Tambovenergo (a 13.9% increase of the average tariff), which resulted in an additional increase of tariffs on power transmission services in the Tambov Region by 5% starting from August 10, 2013.

7 Decree No. 953 dd. October 24, 2013 of the Russian Federation Government.

Required gross revenue (RGR) of IDGC of Centre

Tariff regulations caused the Company's joint operation RGR to increase by 7.1 bln RUB (9.9%) in 2013 and the Company's own revenues to increase by 3.9 bln RUB (11.0%).

CHANGE IN RGR OF IDGC OF CENTRE IN 2009-2013, bln RUB:



RGR STRUCTURE OF IDGC OF CENTRE IN 2013, %:

	%
RGR for branch maintenance	49.7%
Services of JSC FGC UES	20.8%
Services of other TGC	16.2%
Expenses on purchasing electric energy to compensate for losses	13.3%

For details on RGR for power transmission services as specified by branches please see Appendix 2 of the Annual Report.

The largest growth in own RGR was demonstrated by the three above-mentioned branches, where the tariffs overtook the scenario limits: the growth in own RGR at Voronezhenergo amounted to 682.2 mln RUB (21.7%), at Tambovenergo – to 380.6 mln RUB (26.8%), at Smolenskenergo – to 466.6 mln RUB (15.1%); furthermore, the increase in own RGR was demonstrated by the following branches:

- Bryanskenergo – primarily by including the RGR adjustment value into the tariffs, which was stipulated by the change in the actual parameters for calculating the tariffs vs. parameters approved at the end of 2010. The total increase in own RGR amounted to 409.7 mln RUB (20.6%).
- Yarenergo – by increasing the investment component due to an increase in income and ROI which was stipulated by significant commissioning of fixed assets in 2012 and the return of the 'evening-out' phenomenon of the previous years. Moreover, significant growth in the number of standard units of equipment affected the increase of controlled expenses. The total increase in own RGR amounted to 508 mln RUB (16.8%).
- Orelenergo – by increasing the investment component against the background of a 5% growth in net supply. The increase in RGR amounted to 344.4 mln RUB (20.4%).

The largest share in the so-called joint operation RGR is taken by the RGR for IDGC of Centre branch maintenance, that is 50%. Expenses on services provided by JSC FGC UES amount to 21%, expenses on services of other TGC amount to 16% and expenses of purchasing electrical energy to compensate for grid losses total 13%. The structure of RGR has not changed significantly vs. 2012.

TARIFFS FOR GRID CONNECTION

The calculation of payment for the services of grid connection is carried out on the basis of one of the following rates:
- Rates per unit of maximum capacity (RUB/kW).
- Standardized tariff rates (RUB/km or RUB/kW).
- Tariffs for certain consumers under individual projects (electricity generation facilities with a maximum capacity of at least 8,900 kW and voltage of at least 35 kV).

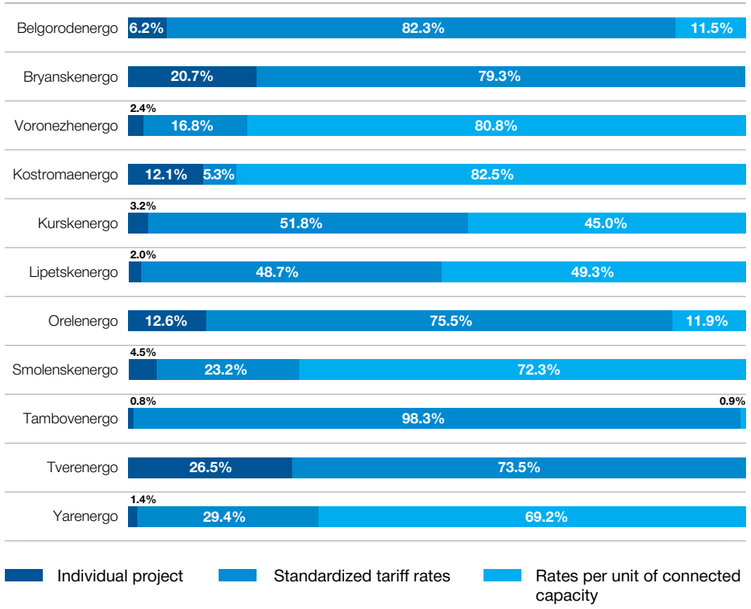
Upon signing the grid connection contract, the applicant may choose the way of payment for the grid connection on his/her own. Around 94% of all contracts in 2013 were signed with the consumers entitled to benefits; the cost of services for each of them amounts to 550 RUB in accordance with the Russian Federation laws. The rest of the applicant categories chose the following payment options.

In 2013, the amount of payment and rates for grid connection were determined in accordance with the Procedural Guidelines approved by Order No. 209-e/1 dd. September 11, 2012 of the FTS of Russia.

In accordance with these guidelines, rates per unit of maximum capacity are approved in the prices of the regulation period, whereas the standardized tariff rates are approved in the prices of 2001.

The following arrangement of rates per capacity unit is applied at the branches:
- Arrangement per grid connection operations.
- Arrangement by applicant category.
- Arrangement by voltage level (except for the Kurskenergo branch).
- Arrangement by volume of connected capacity

GRID CONNECTION PAYMENT OPTIONS RATIO FOR APPLICANTS IN 2013, %:



For details on average standardized tariff rates by branches in 2013 please see page 96-97 of the Annual Report.

For details on the average rates per capacity unit by branches please see Appendix 2 to the Annual Report.

AVERAGE PRICE PER CAPACITY UNIT[9] IN 2011-2013:

Branch	2011	2012	2013
Average payment rate per capacity unit, RUB/kW	3,677.00	3.815.00	4,520.77
Growth, %	-	4%	18%

9 Calculation of the average rates per unit of maximum capacity has been carried out on the basis of the approved RGR for 2013 and the amount of maximum capacity.

Besides the aforementioned, the Yarenergo branch also arranges the rates by territorial zones.

The average standardized tariff rates by branches in 2013 are listed below.

The branches arrange their rates in the following way:
- By voltage level – Belgorodenergo and Kurskenergo.
- By voltage level and range of connected capacity - Bryanskenergo, Voronezhenergo, Lipetskenergo and Orelenergo.
- By voltage level, by range of connected capacity, by cable type and by type of equipment used - Kostromaenergo, Tverenergo and Yarenergo.
- By voltage level, by range of connected capacity and by type of equipment used – Smolenskenergo.
- By voltage level and by type of equipment used – Tambovenergo.

Payment for grid connection of consumers under individual projects is set by the regulator separately for each applicant.

POWER SALES

Within the course of 2013, several IDGC of Centre branches started fulfilling their functions of suppliers of last resort, as a number of power sales companies were deprived of this status.

For details on the Company's 'takeover' of the functions of a supplier of last resort please see page 48 of the Annual Report.

As per the laws of the Russian Federation, when changing the supplier of last resort, sales mark-ups are established for the current period of regulation until the beginning of the next one at the level of the mark-ups of the organization which used to act as the supplier of last resort.

Sales markups are set for the following consumer groups:
- Public and equivalent consumers (residential).
- Grid companies that purchase electrical energy to compensate for electrical energy losses (grid companies).
- Other consumers.

Premiums for the first two groups of consumers are set for the estimated regulation period in absolute terms in RUB/kWh.

Premiums for the 'Other consumers' group vary by consumer subgroups depending on the maximum capacity of their power installations. The following factors are also taken into account when calculating such premiums:
- ROS for the relevant subgroup of the 'Other consumers' group,
- ratio of the operational parameters of the supplier of last resort.

For details on sales markups of the suppliers of last resort effective in 2013 please see page 96-97 of the Annual Report.

AVERAGE STANDARDIZED TARIFF RATES BY BRANCHES IN 2013:[8]

Type of standardized tariff rate	Belgorodenergo	Bryanskenergo	Voronezhenergo	Kostromaenergo	Kurskenergo	Lipetskenergo	Orelenergo	Smolenskenergo	Tambovenergo	Tverenergo	Yarenergo
Rate for covering grid connection expenses - R1, RUB/kW	111.6	318.96	316.62	94.5	860.02	55.35	44.32	274	549.13	676.92	28.15
Rate for covering grid company's expenses on constructing overhead power lines - R2, RUB/km	287,997	176,606.56	217,48.22	302,300	216,926.97	204,095	177,265.06	202,930	224,554.6	491,725.08	328,978
Rate for covering grid company's expenses on constructing cable power lines - R3, RUB/km	358,969	234,499.05	738,174.61	420,000	610,970.715	505,124	198,645.81	253,370	262,424.15	738,018.29	716,737
Rate for covering grid company's expenses on constructing substations - R4, RUB/kW	1,839	653.7	642.89	756.8	1,491.98	302	747.435	1,420	458.43	1,162.16	241

8 Calculation of the average standardized tariff rates has been carried out on the basis of the approved RGR for 2013, the amount of maximum capacity and other physical indicators.

SALES MARKUPS OF THE SUPPLIERS OF LAST RESORT EFFECTIVE IN 2013 ARE LISTED BELOW:

Region	Functions of a supplier of last resort fulfilled since	Period	Public	Grid companies	Ratio of operational parameters	ROS for other consumers, %			
			RUB/kWh	RUB/kWh	Ratio	up to 150 kW	150 - 670 kW	670 kW - 10 MW	at least 10 MW
Bryansk Region	01.02.2013	H1 2013	0.10681	0.10681	0.76	15.23	13.99	9.53	5.58
		H2 2013	0.214	0.21	0.77	15.43	14.18	9.65	5.65
Orel Region	01.02.2013	H1 2013	0.08555	0.08182	0.54	14.29	13.13	8.94	5.23
		H2 2013	0.13752	0.095485	0.66	14.18	13.03	8.87	5.19
Kursk Region	01.02.2013	H1 2013	0.10494	0.10494	0.78	15.82	14.53	9.90	5.79
		H2 2013	0.20988	0.54778	0.43	15.97	14.67	9.99	5.85
Tver Region	01.05.2013	H1 2013	0.09262	0.09244	0.66	14.77	13.70	9.42	5.57
		H2 2013	0.1854	0.20522	0.82	15.51	14.25	9.70	5.68
Smolensk Region	01.10.2013	H1 2013	0.10573	0.10573	0.65	14.51	13.33	9.08	5.31
		H2 2013	0.21146	0.19479	0.73	14.43	13.26	9.03	5.29

INVESTMENT

5.7 thousand km and 1.4 GVA of transformer capacity was commissioned

01

INVESTMENT INDICATORS

14.4
bln RUB

Ammount of capital investments in 2013

17.6
bln RUB

Financing of Investment program in 2013

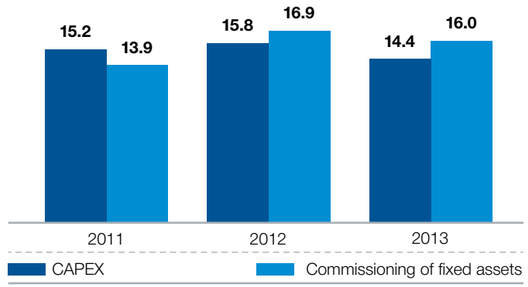
5.7
thous. km

Power lines were commissioned in 2013

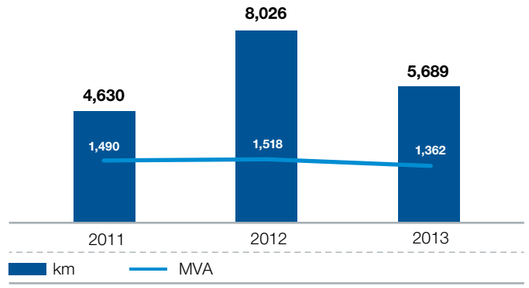
1,362
MVA

Transformer capacity was commissioned in 2013

CAPEX AND COMMISSIONING OF FIXED ASSETS IN 2011 – 2013, bln RUB excl. VAT:



COMMISSIONING OF CAPACITY UNDER INVESTMENT PROGRAM IN 2011 – 2013, km and MVA:



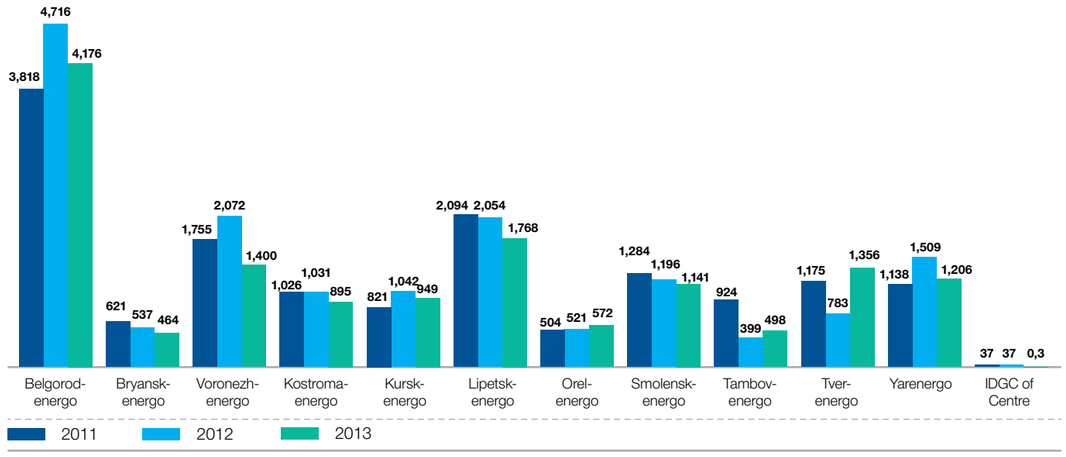
The amount of capital investment of IDGC of Centre in 2013 totaled 14.4 bln RUB. All measures under the investment program were carried out according to planned indicators and needs approved by the authorities of the regions where the Company operates.

During the course of investment in 2013, the Company commissioned 5.7 thousand km of power lines and 1,362 MVA of transformer capacity.

ACTUAL IDGC OF CENTRE INVESTMENT IN 2011-2013:

Period	Capital investment (excl. VAT)	Commissioning of fixed assets (excl. VAT)	Financing (incl. VAT)	Commissioning of capacity		Capacity increase	
	bln RUB			km	MVA	km	MVA
2011	15.2	13.9	17.8	4,630	1,490	3,186	1,001
2012	15.8	16.9	19.2	8,026	1,518	4,481	1,342
2013	14.4	16.0	17.6	5,689	1,362	3,112	891

CHANGE IN CAPEX BY BRANCHES OF IDGC OF CENTRE IN 2011 – 2013, mln RUB:



02

AREAS AND STRUCTURE OF CAPITAL INVESTMENT

IDGC of Centre spent most of its capital investment in 2013 on re-equipping and reconstruction, and on new construction: 50% and 49.5% respectively.

The remaining 0.5% of capital investment was used to acquire electrical grid assets, land and other facilities and to implement other programs and measures.

In the course of implementing the Company's investment program, a major part of funds, i.e. 53% (7.6 bln RUB) was used for grid connection. Retrofitting, reconstruction and new construction of distribution grids accounted for 12% of the funds (1.7 bln RUB).

CAPEX AREAS OF IDGC OF CENTRE IN 2013, mln RUB and %:

Branch	mln RUB	%
Retrofitting	**7,203.9**	**50.0%**
New construction	**7,144.7**	**49.5%**
Other (acquisition of fixed assets)	**76.8**	**0.5%**

CAPITAL INVESTMENT STRUCTURE OF IDGC OF CENTRE IN 2013-2018, mln RUB:

Branch	2013 plan	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan
Total for IDGC of Centre	14,425.4	12,150.4	12,942.5	13,682.0	14,336.8	14,184.7
Retrofitting and reconstruction	7,203.9	7,497.9	8,771.6	8,558.5	9,212.3	9,246.1
New construction	7,144.7	4,618.6	4,170.9	5,123.5	5,124.5	4,938.6
Acquisition of electrical grid assets, land plots and other facilities	28.6	33.9	0.0	0.0	0.0	0.0
Other programs and measure	48.2	0.0	0.0	0.0	0.0	0.0
of which:						
› Major projects	618.7	450.6	474.4	1,012.5	973.5	354.4
› Retrofitting and reconstruction	215.3	144.5	157.3	528.5	263.8	336.4
New construction	403.4	306.1	317.1	484.0	709.7	17.9
› Critical programs	11.9	93.5	0.0	146.2	0.0	0.0
Retrofitting and reconstruction	4.3	93.5	0.0	146.2	0.0	0.0
› New construction	7.6	0.0	0.0	0.0	0.0	0.0
› 110 – 35 kV grids	2,348.2	2,870.6	3,838.5	3,161.3	3,484.8	3,857.1
Retrofitting and reconstruction	2,325.8	2,870.5	3,717.7	2,527.8	3,003.7	3,258.8
› New construction	22.4	0.1	120.8	633.4	481.1	598.3
› Grid connection (GC) (for reference)	7,610.0	5,217.5	4,406.4	4,804.3	5,047.8	5,440.4
› GC facilities with capacity over 750 kW (high voltage, medium voltage 1)	901.4	565.5	171.2	200.1	91.0	15.3
› GC facilities with capacity of 100-750 kW (medium voltage 2)	2,704.8	1,242.5	1,148.6	1,123.3	1,374.8	1,377.8
GC facilities with capacity of 15-100 kW	1,604.8	2,045.4	1,767.8	1,835.2	1,728.4	2,258.4
› GC facilities with capacity under 15 kW	2,399.0	1,364.0	1,318.9	1,645.7	1,853.7	1,788.9
› Distribution grids	1,774.1	1,434.4	2,013.4	2,468.9	2,664.1	2,590.2
Retrofitting and reconstruction	1,722.9	1,426.1	1,988.6	2,452.2	2,647.9	2,584.9
New construction and development	51.1	8.3	24.8	16.7	16.2	5.3
Automation and communication (except for the automated commercial electricity metering system, AMI)	787.4	819.7	711.0	490.2	532.8	455.4
Advanced metering infrastructure (AMI)	442.8	464.5	534.1	538.2	588.5	499.2
Safety programs	107.7	149.1	101.6	129.7	114.6	110.9
Other investment	724.5	650.6	863.1	930.7	930.7	877.1

IDGC of Centre did not implement investment projects at the expense of the federal budget.

IN 2013, IDGC OF CENTRE UNDERTOOK CONSTRUCTION AND RECONSTRUCTION AT THE FOLLOWING MAJOR INVESTMENT PROJECT FACILITIES.:

Branch	Project title	Project goal	Project capacity	Year of commencement	Year of completion	Estimate cost, mln RUB incl. VAT	Implementation of capital investment in 2013, mln RUB excl. VAT
Belgorodenergo	Reconstruction of the 110/10 kV Yuzhnaya substation	› To eliminate capacity shortage of the district power center. › To restore operational life of primary equipment. › To ensure standard levels of quality and reliability of power supply to consumers	130 MVA	2012	2016	638	11.5
Belgorodenergo	Construction of the 110 kV Kreida substation	› To supply electric power to a new private housing microdistrict. › To ensure stability of the electrical grid section (to reconstruct the 330 kV Belgorod substation) and standard levels of power supply reliability. › To provide for an increase in power consumption	50 MVA	2012	2014	335	116
Voronezhenergo	Construction of a 110 kV cable line from substation No. 30 to substation No. 13 (Studenscheskaya)	› To increase reliability and quality of power supply to Voronezh consumers	7 km	2012	2014	354	287
Kostromaenergo	Reconstruction of the 110 kV Motordetal – Kostroma-1 and Zavolzhskaya 1, 2 overhead power lines (Conductor)	› To increase reliability of power supply to Kostroma consumers. › To restore operational life of primary equipment	20 km	2010	2014	595	193.5
Kurskenergo	Construction of the 110 kV Vosmoye Marta-Korenevo-Rylsk Conductor	› To increase reliability of power supply to the south-west of the Kursk Region	45 km	2011	2017	725	1
Orelenergo	Reconstruction of the 110 kV Mtsensk-Chern and Mtsensk-Plavsk Conductor	› To ensure intersystem power transit from the Tula power system to increase reliability of the adjacent grids and boost transmission capacity of the power lines	52 km	2013	2015	353.5	11

08

LONG-TERM INVESTMENT PROGRAM

The IDGC of Centre long-term investment program has been designed bearing in mind the current Company's production goals, objectives and development plans, and the regions in which it operates. The program is also based on the branch investment programs confirmed by the regional executive bodies of the Russian Federation territorial entities.

The development of the long-term program of the Company involved the scenarios for the development of the electric power industry up to 2030, the requirements of the industry's technological policy, and socio-economic growth forecasts for the regions.

The Company adheres to the following principles in its long-term planning activities:

1. Ensuring reliable power supply to consumers
2. Optimizing power grid topology with the consideration of increased demand changes
3. Boosting the power efficiency of production, reducing power losses in the grid, and lowering the Company's expenditures
4. Bringing all power grid facility indicators to the standards of the industry, meeting international standards for technological development by introducing new technology, through innovation, and by improving the structure of production and of the existing technological platforms and real-time operation control.

IDGC OF CENTRE CAPITAL INVESTMENT IN 2013-2018 BY BRANCHES, mln RUB:

Area of capital investment by branches	2013 actual	2014 plan	2015 plan	2016 plan	2017 plan	2018 plan
Belgorodenergo	4,175.6	2,450.1	2,506.6	2,812.7	2,552.7	2,606.0
Bryanskenergo	464.4	431.7	564.3	495.7	1,115.5	1,120.2
Voronezhenergo	1,399.9	1,350.2	1,468.1	1,681.1	1,694.9	1,334.1
Kostromaenergo	895.4	570.5	574.1	643.6	742.3	840.5
Kurskenergo	948.9	809.1	839.5	910.9	774.2	788.2
Lipetskenergo	1,767.9	1,625.7	1,661.4	1,686.5	1,472.1	1,473.4
Orelenergo	572.2	811.5	1,012.7	1,183.7	1,401.4	1,172.4
Smolenskenergo	1,141.0	1,397.1	1,542.8	1,385.5	1,439.3	1,397.4
Tambovenergo	497.9	528.1	550.6	415.5	457.0	526.3
Tverenergo	1,355.7	1,355.8	1,402.8	1,528.6	1,622.2	1,703.5
Yarenergo	1,206.2	820.7	819.7	938.3	1,065.2	1,222.6
Executive body	0.3	-	-	-	-	-
Total for IDGC of Centre	14,425.4	12,150.4	12,942.5	13,682.0	14,336.8	14,184.7

INNOVATIVE DEVELOPMENT AND TECHNOLOGY

Was approved and being implemented Information Technology, Automation, and Telecommunications Strategy through 2016

› A new Unified Technical Policy within the Power Grid Complex has been approved.

› The IDGC of Centre Innovative Development Program for 2013–2018 approved by the Board of Directors is being implemented.

› IDGC of Centre is adopting a new IT strategy approved by the Board of Directors.

Unified Technical Policy within the Power Grid Complex

In December 2013, the Board of Directors of IDGC of Centre approved the Regulations on the Unified Technical Policy within the Power Grid Complex, which replaced the Company's technical policy developed in 2010.

The approved technical policy defines a system of interconnected technical requirements supplementing the current statutory documents. It draws the Company's attention to the most advanced technical solutions, sets the list and limits of application of technical solutions, equipment and technologies aimed at increasing the technical level of transmission, conversion and distribution of electrical energy and the processes of management, operation and development of the IDGC of Centre power grid complex.

The IDGC of Centre technical policy pursues the following principal goals:

› To automate substations, implement and develop modern systems for controlling the technical condition, automatic diagnostics and monitoring of the technological equipment, relay protection systems and emergency automation, communication systems, utility systems, systems of commercial and technical power metering; to switch to creating digital substations without ongoing presence of operators.

› To reduce capital investment and operating costs on facilities by the following measures: optimizing technical solutions while preparing design documentation, using modern equipment and building structures, and reducing areas occupied by the power grid infrastructure.

› To increase energy efficiency of the technology, equipment, materials and systems used; to prepare an energy conservation program and to reduce technological losses of electrical energy in power grids.

› To overcome the tendency of the fixed assets relating to power grids and grid equipment to obsolescence by upgrading them, optimizing work aimed at their reconstruction and retrofitting, and by using equipment with an extended life cycle.

› To improve the technologies of operation, maintenance and repair; to make provision for professional training of operators and repairmen taking into account the implementation of new technology and innovative equipment.

› To increase performance efficiency and develop a system of diagnostics, using the results of the latter in the algorithms of operation of the automatic systems of performance and emergency control.

› To develop the structure of operating and technological facility control, and to ensure the participation of flexible grid infrastructure elements and power consumers in the process of controlling the modes of operation.

› To develop information and telecommunications infrastructure, to increase the level of power grid observability and the quality of data exchange with JCS SO UES and other electrical energy wholesale and retail market participants.

› To minimize adverse environmental effects caused by new construction, reconstruction, operation and maintenance of the facilities.

› To encourage the production of innovative equipment, modern building structures and the development of R&D in the Russian Federation.

01

RELIABILITY AND FORECASTING EMERGENCIES

Each year IDGC of Centre takes steps to make power supply more reliable for consumers, to prevent major interruptions and failures, and improve emergency response: it takes a number of measures to prepare for the spring thaw, for the summer forest fire season, for the autumn and winter seasons to ensure the continuous and reliable operation.

90
mobile crews
ready to eliminate major technological breakdowns

167
vehicles
are available to mobile emergency crews

IDGC of Centre currently has 90 mobile crews ready to eliminate major technological breakdowns and carry out emergency and restoration work. The crews are equipped with all necessary tools and technological accessories, working clothes and protection means necessary to perform emergency and restoration work. The crews consist of over 500 people and have 167 vehicles available.

The Company has built up an emergency reserve of primary technological equipment, materials and spare parts for the overhead power lines and substations of 35-110 kV and 0.4-10 kV distribution grids in accordance with the established standards. The materials and equipment redistribution among the emergency reserve warehouses of the branches was optimized, which provides for their delivery to the area of the emergency and restoration work in the shortest possible time.

Backup power supply sources consisting of 884 mobile and stationary generators with a total capacity of 11 MW were made available.

Communication with and quick response from local governments, flood committees, weather services and the Emergency Situations Ministry divisions, contractors, FGC UES branches, and JSC Russian Grids subsidiaries were established to facilitate joint emergency and restoration efforts and to ensure temporary power supply restoration for consumers during mass outages and interruptions in the grid complex.

Under the program of repairs in 2013, IDGC of Centre overhauled 20.2 thousand km of overhead power lines of 0.4-110 kV, carried out comprehensive repair of 133 substations of 35-110 kV and renovated 4,893 transformer substations of 6-10/0.4 kV.

Corridors for the power lines were cleared from trees and bushes at an area of 11.5 thousand ha and expanded to the standard level at an area of 4.9 ha.

40.2 thousand power facilities underwent technical inspection. Defects detected by the supervisory bodies were eliminated. Boundaries of the fenced-off areas of 5.3 thousand overhead power lines were agreed upon with the Federal Service of Environmental, Technical and Nuclear Supervision.

In 2013, the Company carried out 166 failure prevention drills focused on the implementation of temporary outage schedules, 142 drills to detect and eliminate ground surface icing and snow on cables and ground wires, 11 drills to practice interaction during emergency with a risk of power supply failure in low temperature environment. The drills involved the JSC FGC UES branches and joint participation of the Russian Ministry of Emergency Situations, administrations of the cities and governments of the Russian Federation territorial entities and JSC GC UES.

In October 2013, IDGC of Centre eliminated the consequences of a hurricane wind that caused cutoffs of 153 overhead power lines of 10-110 kV at the Smolenskenergo and Tverenergo branches. The high alert regime was introduced when organizing the emergency and restoration work on round-the-clock basis. The Company's specialists eliminated damages of the overhead power lines, cut down the trees damaged by the wind to prevent them from falling. Backup power-supply circuits were used to ensure power supply to the citizens of the affected regions while the emergency and restoration work was carried out. As a result of the measures taken all of the overhead power lines were put back in operation and the power supply for the citizens went back to its standard scheme.

At the end of November 2013, freezing rain caused mass cutoffs of 6-110 kV overhead power lines in the Kostroma, Tver and Yaroslavl Regions caused by falling trees, damaged isolators, broken cables and torn ground wires. Additional help from other branches of the Company was sent to these regions to eliminate the bad weather consequences in the shortest time. Furthermore, JSC FGC UES, JSC MOESK, JSC IDGC Northwest and JSC IDGC of the Central and Volga Regions provided their assistance.

Thanks to the well-organized work and effective cooperation, all the necessary measures to ensure temporary power supply in the affected regions were taken promptly, the consequences of the freezing rain were eliminated and the overhead power lines were put back in operation.

>500
employees

are involved in a 90-mobile emergency crews

20.2
thous. km

Power lines repaired in 2013

>5,000
substations

repaired in 2013

>200
drills

conducted in 2013

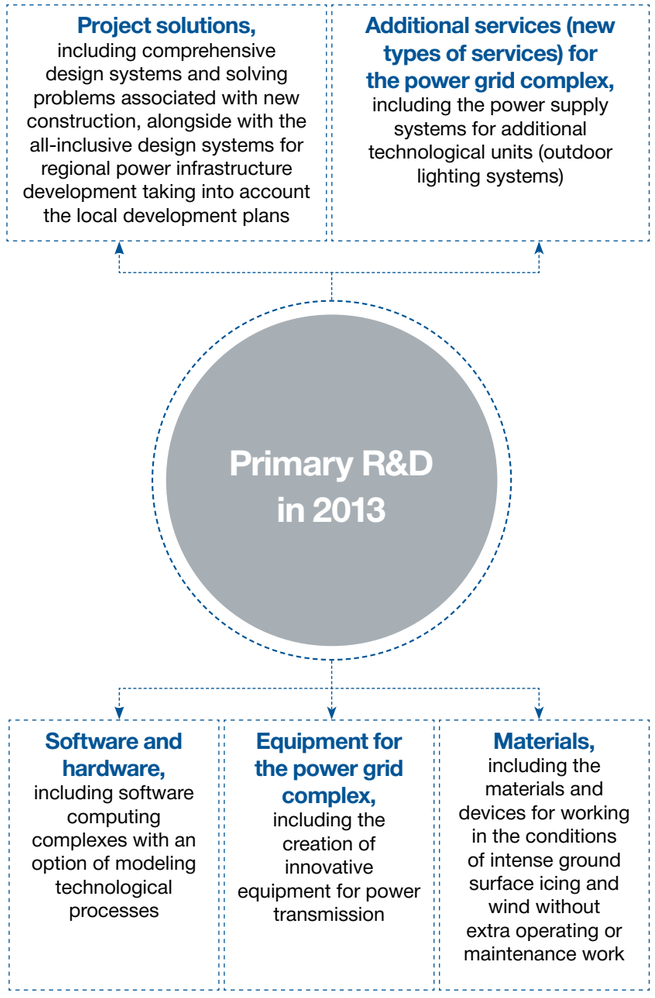
02

INNOVATIVE DEVELOPMENT PROGRAM

Operations of IDGC of Centre aim at leveling up with the highly developed industrial countries as far as technical advancement is concerned. This can be achieved by modernizing and creating an upgraded power grid infrastructure on the basis of technological innovation.

The Board of Directors declared the development and implementation of the Innovative Development Program of IDGC of Centre (IDP) a business priority. The Company is currently following the IDP for 2013-2018 approved by the Board of Directors in December 2013.

In 2013, IDGC of Centre carried out R&D operations for 6 projects, the actual amount of investment thereunder amounting to 69.2 mln RUB.



Practical research for planning, controlling and monitoring performance of repair and maintenance program for grid facilities and development of software to automate this technological process

PURPOSE:

- to create a dedicated system with the following goals: to control production as far as strategic and operational planning of diagnostics, maintenance and repairs are concerned, to gain control over maintenance and repair operations and the management of warehouse inventories;
- to create methods and tools for the purposes of remote observability of the maintenance and repair crews, both in the time of normal operation and while eliminating emergencies;
- to forecast scenario conditions of the process of planning with the subsequent evaluation of several options of the maintenance and repair program and calculation of expenses on fulfilling the annual maintenance and repair program, including the evaluation of the reliability indicators (a forecast model)

RESULTS IN 2013:

- A software package for automating the processes of planning, monitoring and controlling the fulfillment of the maintenance and repair program, calculating breakdown effects, detecting, monitoring and controlling defects discovered during inspection was developed.
- Methods and tools of remote observability of the mobile crews were implemented.
- Equipment was supplied

62 mln RUB

Project financing incl. VAT, of which 29.8 mln RUB incl. VAT was used in 2013

2014

will be completed

Development of a sample pole mounted 6-10/0.4 kV transformer substation, accompanying design and technical documents

PURPOSE:

- to develop a sample pole mounted transformer substation (PTS) to be connected to the grid following a simplified connection circuit;
- to estimate the cost of technical solutions for the PTS;
- to estimate the possible reduction of technological loss at 0.4 kV overhead power lines and the extension of grid connection opportunities for the customers by switching them to 10 kV power supply;
- o estimate the possible improvements of reliability and quality levels of power supply for the consumers

RESULTS IN 2013:

- Specifications for the test prototype were compiled and a feasibility study was conducted. Patent and related information search was carried out.
- Unified design solutions for the PTS were developed.
- Design and technical documentation was drawn up.
- PTS prototypes were created and underwent preliminary testing.
- The prototype and design documentation were finalized.
- Factory acceptance testing was carried out, specifications and operation manuals were developed.
- Requirements to the design of the 6-10/0.4 kV PTS were developed.
- Specifications for the 6-10/0.4 kV PTS were developed

29 mln RUB

Project financing incl. VAT, of which 18.4 mln RUB incl. VAT was used in 2013

Completed

The project was implemented and commissioned for commercial operations in 2013

Development of automated design systems for effective selection of outdoor lighting systems

PURPOSE:

- to ensure the Company's entry to the energy services market, to render design, construction, operation and repair services relating to the outdoor lighting systems based on energy efficient technologies;
- to improve the Company's image as an up-to-date organization which uses the latest achievements of science and technology in the area of electric power and energy conservation;
- to increase the Company's profit;
- to unify and standardize technical solutions relating to energy efficient outdoor lighting;
- to reduce expenses on developing technical solutions;
- to inform consumers about typical technical solutions relating to energy efficient outdoor lighting

RESULTS IN 2013:

- The existing technology was analyzed and the collected data systemized.
- A software scope statement was developed based on the results of analytical work.
- The first test version of the software was developed.
- A version of the software to ensure the security of results was developed

3.5 mln RUB

Project financing incl. VAT in 2013

Completed

The project was implemented and commissioned for pilot operations in 2013

Development of standard designs for multi-sided anchor poles for 0.4 kV overhead power lines

PURPOSE:

- to increase reliability of power supply to consumers in regions with difficult weather conditions and prone to ground fires;
- to reduce CAPEX, in particular, CAPEX on logistics, and the time needed for construction and installation works by reducing the number of poles in comparison with the traditional design (reinforced concrete, wood) of anchor poles;
- to use anchor poles as an emergency reserve, which would allow the Company to reduce logistics related expenses on delivering the poles to the installation site and accelerate elimination of emergencies

RESULTS IN 2013:

- Specifications for the developed prototype were prepared. Patent and related information search was carried out.
- A feasibility study was conducted.
- Design and technological documentation was developed. Prototypes were made.
- Factory and acceptance tests, certification and patenting of the product were carried out

13.7 mln RUB

Project financing incl. VAT in 2013

Practical research to develop the technological process of dedicated renewal of the operating current systems for the power grid facilities of 35-220 kV of the regional grid companies

PURPOSE:

- to unify and standardize the equipment being used to ensure reliable operation of the distribution power grid complex;
- to increase reliability and improve operational parameters of the operating current system;
- to reduce the cost of construction and reconstruction of substations as far as the operating current systems are concerned

RESULTS IN 2013:

- research was carried out and information about the operating current systems, tools and equipment utilized by the regional grid companies was collected

1.5 mln RUB

Project financing incl. VAT in 2013

Standard development plan outlines for expanding 35 kV and below power grids

PURPOSE:

- to ensure efficient operation and increase reliability of distribution power grids;
- to create the basis for developing annual investment programs by systemizing source parameters and using a structured algorithm of creating plans for expanding 35 kV and below power grids

RESULTS IN 2013:

- practical experience in developing expansion plans was researched

2.3 mln RUB

Project financing incl. VAT in 2013

PLANS OF IDGC OF CENTRE:

In the area of R&D:

- to develop technical solutions aimed at combining traditional distribution grid facilities with the charging infrastructure (a smart transformer of a medium/low voltage grid).
- to perform scientific research on the systems ensuring observability of the 6/10 – 0.4 kV distribution grid at IDGC of Centre.
- to elaborate a system for taking electrical energy meter readings using a pocket computer.

As far as the innovative development is concerned, the technology of 'digital substations' is planned to be implemented with a data exchange system on the basis of IEC 61850.

The following prototypes of equipment, technology and materials were developed in 2013 under the R&D projects:

A 6-10/0.4 kV pole mounted transformer substation

Patents for the 'Pole Mounted Transformer Substation' utility model No. 133982 dd. October 27, 2013 and No. 133983 dd. October 27, 2013 were obtained in the course of implementing this project. IDGC of Centre is the patent holder.

A 10/0.4 kV pole mounted transformer substation was commissioned for commercial operations on 10 kV overhead power lines in the village of Vypolzovo, Starooskolsky District of the Belgorodenergo branch.

Standard steel multi-sided poles for 0.4 kV overhead power lines

Samples of the steel multi-sided poles for 0.4 kV overhead power lines were delivered for installation in the village of Syrskoye, Lipetsk District of the Lipetskenergo branch.

A system of automated design for the effective selection of outdoor lighting system facilities

This system underwent testing on the territory of the Lipetskenergo branch.

The following interim results on the renewed R&D contracts were obtained in 2013:

- Software for automating the system of planning, monitoring and controlling the maintenance and repair program of the power grid facilities and the supply of goods and materials.
- The first edition of the procedural guidelines for planning referring to the expansion of the 35 kV and below power grids.

The amount of funds allocated to finance R&D in 2013 equaled 0.07% of the total Company own revenues.

IMPLEMENTATION INDICATORS OF THE INNOVATIVE DEVELOPMENT PROGRAM:

Performance indicator	Unit of measurement	Amount of expenses
Expenses on R&D performed by third parties, in particular, by researchers (higher education institutions, scientific organizations, small and medium-size innovation companies)	thous. RUB	69,169
including projects implemented within the framework of		
Technological platforms	thous. RUB	-
Institutions of higher education	thous. RUB	-
Scientific organizations	thous. RUB	18,418
Expenses on further professional training and retraining of personnel at higher education institution per employee	RUB/person	12,196

For details on further professional training and retraining of employees in 2013, please see Appendix 2 to the Annual Report.

08

INFORMATION TECHNOLOGY, AUTOMATION AND TELECOMMUNICATIONS

The electric power industry nowadays is one of the most complex and developed industries as far as the IT-solutions are concerned. The majority of processes associated with the grid company's core operations are automated. Real-time process control over the Company's distribution grids is carried out with the help of automated systems, which allow the Company to significantly increase the efficiency of control, thus reducing the time needed to eliminate technological failures and increase reliability of power supply for the consumers.

In 2012, the Company's Board of Directors approved the IDGC of Centre Information Technology, Automation, and Telecommunications Strategy through 2016, and has defined the primary objective of this strategy as providing effective information technology and telecommunications tools (ICT) to support the Company's business operations.

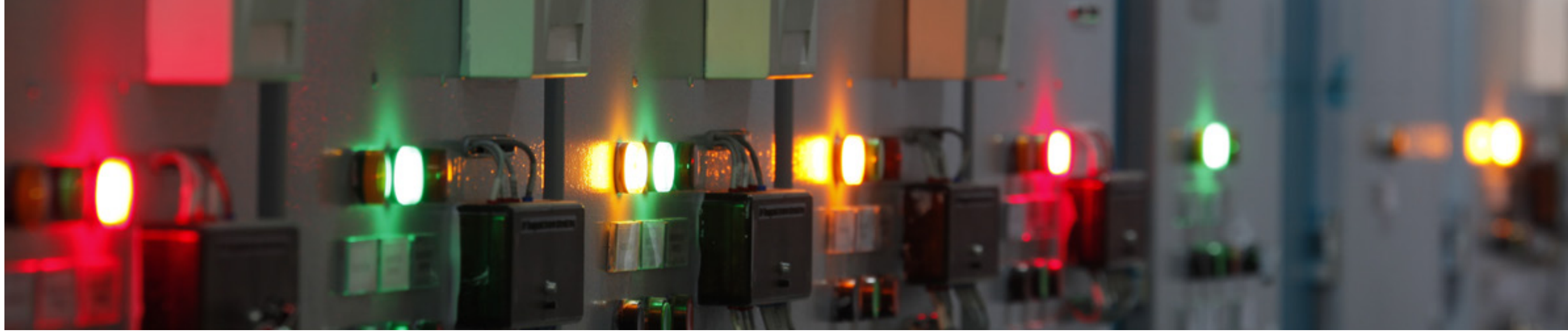
In order to implement the strategy, the Company has developed a plan of measures, which is updated on an annual basis. This plan includes major information technology and telecommunications development projects. IDGC of Centre took this plan of measures into account while furthering its projects aimed at developing information technology and automating business processes.

AUTOMATED SYSTEMS OF PROCESS CONTROL AND REAL-TIME SUPERVISORY CONTROL

Real-time process control of the power grid complex is carried out with the help of the grid control centers (GCC), which operate in each branch of IDGC of Centre. GCC are equipped with all the software and hardware, information and technological systems necessary to control the process parameters of operation and the operational condition of the power grid facilities. This provides for an opportunity to promptly react to the changes in the process parameters of operation of the equipment and to take measures to prevent (eliminate) emergencies within the power grid complex in due time.

The activities of IDGC of Centre associated with the development of the automated systems of process control in 2013 were focused on the implementation of programs to increase observability and controllability of the distribution grid facilities and the Company's Innovative Development Program for the future years.

As a result of the work carried out at IDGC of Centre, forty-two 110 kV substations, thirty-one 35 kV substations and two 10(6) kV distribution units were provided with remote process controls.



In 2013, the Company continued its work of replicating the DMS/OMS system (distribution management system/ outage management system) at 10 branches (except for the Belgorodenergo branch): operators of the GCC and 2 district dispatch control centers for the distribution zones of each of the 10 branches were provided with work stations.

The Company is planning to equip thirty-three 110 kV substations with remote controls in 2014. Furthermore, OMS/DMS should be started and commissioned at 10 GCC and 20 district dispatch control centers for the distribution zones in 2014.

Fiber optic communication lines with a total length of 768 km used to send technological information on all decision-making levels were constructed at the Company's branches in 2013 within the framework of increasing observability and controllability of the distribution power grid complex. This was done in accordance with the approved programs of modernization and extension of systems of data collection and exchange at IDGC of Centre facilities. The technology is used to organize communication channels and transmit telemetric data from the controlled facilities to the GCC of the Company's branches and the relevant dispatch control centers of JSC GC UES, necessary to control the operating conditions of the Unified Power System.

Despite the fact that the fiber optic communication lines are costly and require a rather long time of construction, they remain the most reliable solution with the highest capacity in comparison with the other technological solutions for organizing communication channels, thus being the first choice option as far as the main communication channels are concerned.

The work aimed at equipping substations with satellite communication was continued in 2013. As a rule, satellite channels are used as backup channels for communicating and transferring data to 35 and 110 kV substations.

Certain amount of work was carried out by the Company in the reporting year to upgrade and complete the provision of wireless equipment to the real-time process control divisions of the Voronezhenergo and Tverenergo branches (grid control centers – district dispatch control centers – substation – first responding crew), to install the digital dispatch wireless communication system using modern digital wireless equipment and to integrated it into the current feed system for transferring companies' data. This system allows the Company to switch to a completely new level of control over the first responding and maintenance crews.

High frequency communication channels at IDGC of Centre branches were upgraded in 2013 by way of replacing analog equipment with digital. The Company's branches own the most of the high frequency communication channels (around 98%).

Start-up and commissioning work is being carried out at eight branches of the Company (Belgorodenergo, Voronezhenergo, Kurskenergo, Kostromaenergo, Orelenergo, Lipetskenergo, Tambovenergo and Yarenergo) to organize the process of obtaining data from the meters installed at the IDGC of Centre facilities to the relevant Nforce software within the framework of implementing the program of prospective development of the power metering systems. By the end of 2014, after the work was completed and the contracts signed, readings from over 50,000 meters installed at the branches under the program of prospective development of the power metering systems 2013-2014 should be transmitted to the Nforce system, alongside with the readings of the meters installed under the programs of prospective development of the previous years.

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

The following measures were taken in 2013 under the Information Technology and Telecommunications Strategy.

Automation of business processes:

- The SAP IS-U Power Transmission Service Management Subsystem was commissioned for commercial operation as far as the data exchange with the electric power retail market participants is concerned.
- A project to further the automation of additional services rendered by the Company was implemented, which allowed the Company to increase the quality of services rendered.
- A project to automate the process of planning the demand for goods and services on the basis of SAP was implemented.
- A project to develop a unified catalog of information technology and telecommunication services was launched: an approach to dividing and naming the information technology and telecommunications services was developed, the dedicated structure and list of the services were defined, a template of the service description card was developed and the process of managing the catalog of services was finalized.
- An Automated Corporate System of Statutory Document Control for preparing, collecting, updating, providing and storing quality management documents was developed and implemented.

IT-infrastructure:

- A fail-safe system of access to the centralized resources from the Internet was installed.
- The channel for exchanging Treasury extracts was secured by coding the mail with digital certificates.
- The virtual platform's hardware was upgraded: RAM of the physical servers was increased twofold up to 96 Gb/server, the disk system was also extended.
- The Inventory automated corporate system of stock-taking equipment and software was commissioned for commercial operation. The system contains data on 45,000 computing devices.

CORPORATE GOVERNANCE

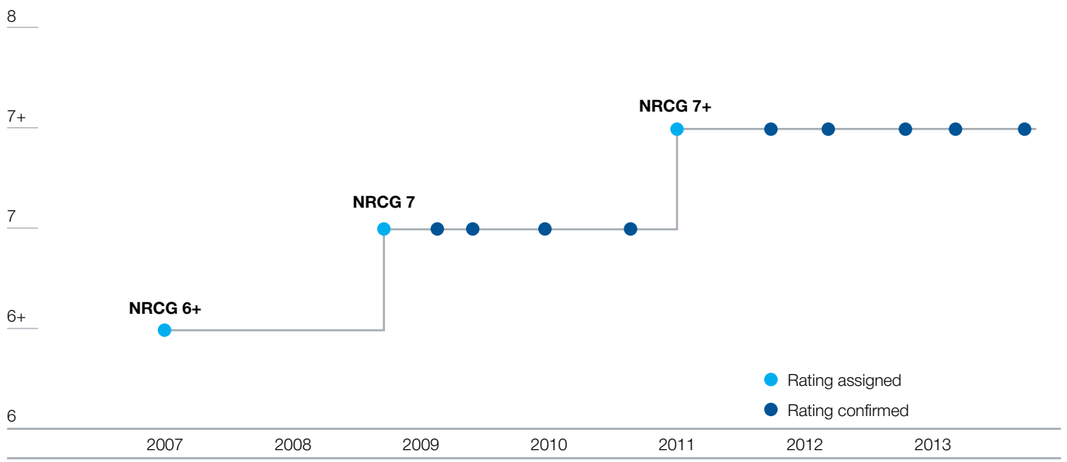
National Rating of Corporate Governance (NRCG) was confirmed at 7+ Developed Corporate Governance Practice – highest among peers

› The Code of Corporate Conduct and the new edition of the Corporate Governance Code were approved by the Company's Board of Directors.

› Held 31 meetings of the Board of Directors of the Company, 5 of them – in praesentia.

› Activities of members of the Board of Directors were evaluated for the first time.

CORPORATE GOVERNANCE RATING:



The Company strives to fully comply with the main principles, adhere to Russian and international standards and provide for uninterrupted development of corporate governance when building its effective governance system.

In 2013, IDGC of Centre held an Annual General Meeting of Shareholders. New members were elected to the Company' Board of Directors, which provided equal representation of the interests of both majority and minority shareholders and of members of an independent investor association.

The shareholders decided to allocate 25% of net profit to pay out dividends on common shares, and use the rest of the profit on the development of the Company.

25%

of net profit to pay out dividends on common shares in 2013

CJSC KPMG was approved as the Company's auditor for the second year, having audited the Company's reports in accordance with both the Russian and international accounting standards.

The elected audit commission consisted of 5 members who are not members of the Company's management bodies or employees, the fact providing for the objective character and independency of the auditors' judgment.

New members to the Board of Directors' committees were elected in the reporting year. The Audit Committee and the Personnel and Remuneration Committee are comprised entirely of members of IDGC of Centre's Board of Directors who represent both majority and minority shareholders.

In 2013, the Russian Institute of Directors confirmed the NRCG 7+ (National Corporate Governance Rating) rating of IDGC of Centre, that is, Developed Corporate Governance Practice. We have been maintaining the history of this rating since 2007.

CORPORATE GOVERNANCE CODE

The Company has a Corporate Governance Code, the new edition of which was approved by the Board of Directors in February 2013. The Code encompasses the standards and principles of corporate governance, reflects the policy applied to the activities of the management and regulatory bodies, interaction with shareholders, investors, subsidiaries and controlled companies. A separate section is devoted to the resolution of the conflict of interests and corporate conflicts.

For details on this document, please visit our corporate website at http://www.mrsk-1.com/common/upload/docs/Corporate_Governance_Code_english_04.03.13.pdf.

MAIN PRINCIPLES OF CORPORATE GOVERNANCE

We utilize the principles of fairness, transparency, accountability of the Company's management bodies to the shareholders, in particular, accountability of the Company's management to the Board of Directors and the General Meeting of Shareholders, controllability of financial and utility-related operations and observance of third-party interests.

THE COMPANY'S TRANSACTION APPROVAL POLICY

Major transactions and interested party transactions at IDGC of Centre are subject to the approval of the Company's management bodies according the Joint-stock Companies Federal Act and the Charter of IDGC of Centre. However, the Board of Directors' responsibilities as far as preliminary approval of transactions involving the Company's assets is concerned, were extended to reduce the risk of improper disposal of the Company's assets.

For details on transactions, please see page 124 of the Annual Report.

IDGC OF CENTRE MANAGEMENT AND REGULATORY BODIES:

EXTERNAL CONTROL OVER FINANCIAL AND ECONOMIC OPERATIONS OF THE COMPANY:

Auditor

Audit Commission

SUPREME GOVERNANCE BODY:

GENERAL SHAREHOLDERS' MEETING

STRATEGIC GOVERNANCE BODY:

Board of Directors

Committees by the Board of Directors

- Strategy and Development Committee
- Reliability Committee
- Personnel and Remuneration Committee
- Grid Connection Committee
- Audit Committee

EXECUTIVE BODIES:

Management Board*

Chairman of the Management Board, General Director

- First DGD
- DGD for Engineering, Chief Engineer
- DGD for Economics and Finance
- DGD for Capital Construction and Investment
- DGD for Corporate Governance
- DGD , Branch Director

INTERNAL BODY OF CONTROL OVER FINANCIAL AND ECONOMIC OPERATIONS OF THE COMPANY:

Internal Audit and Risk Management Department

Bodies that exercise control over the Company's financial and economic operations

Bodies that recommend on strategic issues of the Company's development for the Board of Directors

* As of 31.10.2013.

IDGC OF CENTRE MANAGEMENT BODIES AND THEIR RESPONSIBILITIES:

Management body	Responsibilities of the management bodies are defined by the IDGC of Centre Charter under the Joint-stock Companies Federal Act	Charter and internal documents	Meeting regularity	Form of meeting
General Shareholders' Meeting	Shareholders decide on the following key matters of the Company's operations at General Shareholders' Meetings (hereinafter – GSM): › Reorganization and liquidation of the Company. › Composition of the Board of Directors, elections to the Board. › Election of the members to the Auditing Committee, approval of the Company's auditor. › Dividend payments. › Approval of annual reports, annual financial statements, distribution of profit and losses for the fiscal year. › Approval of major transactions and interested-party transactions. › Other	IDGC of Centre Charter, Articles 10-14. Regulation on the procedures for planning and holding General Shareholders' Meetings (approved by the Annual GSM on 17.06.2011, Minutes dd. 21.06.2011 No. 01/11)	At least once annually. An Annual GSM is held at least two months after and no later than six months after end of the financial year. An Extraordinary GSM is held by decision of the Board of Directors.	› in praesentia (joint attendance); › in absentia (by submitting the ballots for voting)
Board of Directors **11 members**	› Determination of the priority areas of operations for the Company. › Decisions to convene Annual and Extraordinary GSM and confirmation of the meeting agenda. › Creation of the executive body and its early dissolution. › Recommendations on size of share dividends and the payment procedures. › Use of provisions and other funds of the Company. › Approval of the Company's internal documents (except those to be confirmed by the GSM under the Joint-stock Companies Federal Act or by the Company's executive bodies under the Company's Charter). › Establishment of branches and opening of representative offices of the Company. › Approval of transactions under Chapters X and XI of the Joint-stock Companies Federal Act. › Approval of the Company's registrar and the terms of his/her contract, including contract termination terms. › Decisions on the Company's participation in other organizations (with the exception of organizations listed in Clause 18.1, Article 48 of the Joint-stock Companies Federal Act) or termination of such participation, and other matters stipulated by the Joint-stock Companies Federal Act and the Company's Charter The IDGC of Centre's Charter specifies a broader range of issues considered by the Board of Directors in preliminary approval of transactions: › Transactions involving fixed assets of the Company exceeding 10% of the book value of these assets of the Company based on most recent financial statements. › Transactions (including several related transactions) to manage (or transfer the rights to) real estate and/or equipment used expressly for the Company's core activity with a book value exceeding 5% of the book value of the Company's assets, by any means, or the encumbrance of said property by any means. › Transactions (including several related transactions) involving the acquisition, disposal, or possible disposal of assets constituting fixed assets, intangibles, or the facilities under construction, intended for the production, transmission, dispatch, or distribution of electricity and heat power in cases (amounts) determined by separate decisions of the Board of Directors. › Transactions (including several related transactions) involving the acquisition, disposal, or possible disposal of assets constituting fixed assets, intangibles, or the facilities under construction, not intended for the production, transmission, dispatch, or distribution of electricity and heat power in cases (amounts) determined by separate decisions of the board of Directors	IDGC of Centre Charter, Articles 15-18. Regulation on the procedures for convening and holding meetings of the Board of Directors (approved by the Annual GSM on 15.06.2012, Minutes dd. 20.06.2012 No. 01/12)	According to the Board of Directors' work plan, and As necessary but at least once every six weeks.	› in praesentia; › voting in absentia (polling)
Management Board **at least 3 members**	› Development and presentation of the Company's growth strategy to the Board of Directors. › Preparation of annual (quarterly) business plans, including an investment program, and a report on its fulfillment; approval (adjustment) of cash flows. › Preparation of annual reports on financial and utility-related operations of the Company and on the Management Board's fulfillment of resolutions passed by the GSM and the Board of Directors. › Review of the reports of deputy general directors. › Decisions on the responsibility issues of the senior management bodies of the businesses, which are fully owned (100%) by the Company. › Decisions on the transactions relating to property, work, or services worth 5%-25% of the book value of the Company' assets. › Other matters stipulated by the Charter and Regulation on IDGC of Centre Management Board	IDGC of Centre Charter, Article 22. Regulation on the Management Board (approved by the GSM on 17.06.2011, Minutes dd. 21.06.2011 No. 01/11)	According to the Management Board's work plan, and As needed, but at least once a month	› in praesentia; › voting in absentia (polling)
General Director	The General Director oversees current operations of the Company in accordance with the decisions passed by the GSM, the Board of Directors, and the Management Board of the Company. The General Director is responsible for all matters of controlling current operations, with the exception of matters that are the responsibility of the GSM, the Board of Directors, and the Management Board	IDGC of Centre Charter, Article 23		

GENERAL MEETING OF SHAREHOLDERS

The General Shareholders' Meeting is the Company's supreme management body. The shareholders exercise their rights to manage the Company's operations by voting, proposing issues to the agenda of the meeting and by recommending candidates to the management and regulatory bodies of the Company.

On June 14, 2013, the Annual General Meeting of Shareholders was held in the form of shareholders' joint attendance in the Holiday Inn Vinogradovo conference hall in Moscow.

Over 100 shareholders and their representatives attended the meeting. The holders of 90.2% of the Company's shares voted on the issues of the agenda.

The shareholders made the following resolutions at the meeting:
- the annual report for 2012, annual financial statements and profit distribution for 2012 were approved;
- net profit in the amount of 3,450.7 mln RUB was distributed in the following way: 2,587.8 mln RUB was allocated for Company growth and 862.9 mln RUB was allocated for the payment of dividends;
- to pay dividends on common shares of the Company for 2012 in the amount of 0.02044 RUB per common share of the Company;
- new members of the Board of Directors and the Audit Committee of the Company were elected. CJSC KPMG was approved as the Company's Auditor.

For details on resolutions passed by the Annual General Meeting of Shareholders on June 14, 2013, please visit the Company's corporate website at http://www.mrsk-1.ru/en/investors/management/decision/stockholders-meeting/solution/14062013/.

BOARD OF DIRECTORS

The Company's Board of Directors is responsible for the strategic management of the Company, general control over its operations and supervision of the Company's executive bodies.

MEMBERS OF THE BOARD OF DIRECTORS

The Company's Board of Directors changed two times in 2013. The current Board of Directors of IDGC of Centre was elected on June 14, 2013 at the Annual General Meeting of Shareholders. Its members are listed below.

The IDGC of Centre Board of Directors provides equal representation of the interests of all related parties – on June 14, 2013, the shareholders elected three minority shareholders' representatives (Alexander Branis, Roman Filkin and Alexander Shevchuk) to the Board of Directors of IDGC of Centre; all members of the Board of Directors, except for Oleg Isaev, are independent and non-executive directors[10].

EDUCATION OF THE MEMBERS TO THE BOARD OF DIRECTORS:

	directors
Power industry	4
Economics, finance and management	4
Jurisprudence	3

INDEPENDENT DIRECTORS IN THE BOARD OF DIRECTORS

As of December 31, 2013:

	directors
Independent directors	10
Other	1

10 In accordance with the Corporate Governance Code of IDGC of Centre (Minutes of the Board of Directors dd. 01.03.2013 No. 03/13).

MEMBERS OF THE BOARD OF DIRECTORS OF IDGC OF CENTRE ELECTED ON JUNE 14, 2013:[11]

SERGEY ALEXANDROVICH ARKHIPOV

CHAIRMAN OF THE BOARD OF DIRECTORS, INDEPENDENT DIRECTOR

Deputy General Director, Technical Director, JSC Russian Grids

Born in 1967, Russian citizen.

Graduated from the Almaty Power Engineering Institute in 1990 with a degree in power systems and grids.

Deputy Chairman for Personnel and Remuneration of the IDGC of Centre Board of Directors.

First elected to the Company Board of Directors on June 14, 2013.

OKSANA VLADIMIROVNA SHATOKHINA

DEPUTY CHAIRMAN OF THE BOARD OF DIRECTOR, INDEPENDENT DIRECTOR

Deputy General Director for Economics, JSC Russian Grids

Born in 1975, Russian citizen.

Graduated from the Financial Academy under the Government of the Russian Federation in 1999 with a degree in finance and credit.

Member of the Board of Directors of JSC IDGC Siberia, JSC IDGC South and JSC MOESK. Chairperson of the Audit Committee and the Personnel and Remuneration Committee of the IDGC of Centre Board of Directors.

First elected to the Company Board of Directors on August 23, 2012.

ALEXANDER MARKOVICH BRANIS

INDEPENDENT DIRECTOR

Director, Prosperity Capital Management (Russia) Ltd

Born in 1977, Russian citizen.

Graduated from the Academy of National Economy under the Government of the Russian Federation in 2001, BBM.

Member of the Board of Directors of JSC IDGC of the Central and Volga Regions, JSC IDGC South, JSC TGK-2 and JSC TGK-6.

First elected to the Company Board of Directors on December 9, 2004.

VALERY ANATOLYEVICH GONCHAROV

INDEPENDENT DIRECTOR

Deputy Chairman of the Management Board, JSC FGC UES

Born in 1963, Russian citizen.

Graduated from the Leningrad Shipbuilding Institute of the Order of Lenin in 1987 with a degree in instrument engineering, PhD in Economics.

First elected to the Company Board of Directors on June 14, 2013.

SERGEY ALEXANDROVICH DEMIN

INDEPENDENT DIRECTOR

General Director, Branch of JSC FGC UES Backbone Grids of Center

Born in 1970, Russian citizen.

Graduated from the Moscow Power Engineering Institute in 1994 with a degree in electric drives and automation of industrial and technological facilities.

Member of the Board of Directors of JSC IDGC of the Central and Volga Regions, JSC MOESK, JSC TGK-2 and JSC TGK-6.

Member of the Audit Committee of the IDGC of Centre Board of Directors.

First elected to the Company Board of Directors on June 14, 2013.

OLEG YURYEVICH ISAEV

Chairman of the Management Board, General Director, IDGC of Centre

Born in 1969, Russian citizen.

Graduated from the Military Institute holding the Order of the Red Banner at the USSR Ministry of Defense in 1992 with a law degree and from the Russian Presidential Academy of National Economics and Public Administration under the President of the Russian Federation in 2004. Completed a professional retraining program in the area of power industry business management.

Doctor[12] of Law and a doctoral student at the Russian Research Institute under the Ministry of Internal Affairs.

First elected to the Company Board of Directors on June 14, 2013.

MADINA VALERYEVNA KALOYEVA

INDEPENDENT DIRECTOR

Head of Corporate Governance Department, JSC FGC UES

Born in 1980, Russian citizen.

Graduated from the Khetagurov North Ossetia State University in 2001 with a law degree.

Member of the Board of Directors of JSC Krasnodarneftegeofizika, JSC Sibneftegeofizika, JSC Nizhnevartovskneftegeofizika, JSC Permneftegeofizika, JSC IDGC Urals, JSC IDGC of the Central and Volga Regions, JSC Stavropolneftegeofizika, JSC VNIKTIneftekhimoborudovaniye, JSC Kaliningradgeofizika, JSC Samaraneftegeofizika and JSC Volgogradneftegeofizika.

First elected to the Company's Board of Directors on 17.06.2011

ALEXEY VALERYEVICH MOLSKY

INDEPENDENT DIRECTOR

Deputy Chairman of the Management Board, JSC FGC UES

Born in 1980, Russian citizen.

Graduated from the Moscow Power Engineering Institute in 2004 with a degree in engineering.

First elected to the Company's Board of Directors on June 14, 2013.

11 As of December 31, 2013 in accordance with the current laws of the Russian Federation on personal information.

12 Here and below: this degree corresponds to Level 1 doctoral degree ("Candidate of Sciences") in the Russian classification of academic degrees.

MEMBERS OF THE BOARD OF DIRECTORS OF IDGC OF CENTRE ELECTED ON JUNE 14, 2013 (continued):

MAXIM MIKHAILOVICH SAUKH
INDEPENDENT DIRECTOR

Head of Corporate Relations Department, JSC Russian Grids

Born in 1979, Russian citizen.

Graduated from the St. Petersburg Humanitarian University of Trade Unions in 2001 with a law degree.

Member of the Board of Directors of JSC Kabbalkenergo, JSC ENIN, JSC Pskovenergosbyt, JSC Ekaterinburg Power Grid Company, CJSC Svet, CJSC Kurortenergo, JSC SZUEK, JSC Kaliningrad Generating Company, LLC IT Energy Service, JSC Tyumenenergo Power Grid Company, JSC TRK and JSC NIC Siberia.

Member of the Audit Committee, the Personnel and Remuneration Committee and the Strategy and Development Committee of the IDGC of Centre Board of Directors.

First elected to the Company Board of Directors on June 15, 2012.

ROMAN ALEXEYEVICH FILKIN
INDEPENDENT DIRECTOR

Assistant Manager for Electricity and Engineering, Prosperity Capital Management (Russia) Ltd

Born in 1983, Russian citizen.

Graduated from the Financial Academy under the Government of the Russian Federation in 2005 with a degree in finance and credit.

Member of the Board of Directors of JSC Kurgansky Mechanical Engineering Works, JSC Dalenergomontazh, JSC Smolensk Power Maintenance Company, JSC IDGC South, JSC IDGC of the Central and Volga Regions, JSC TGK-6, JSC Urengoitruboprovodstroi, JSC Noyabrskelektrosetstroi and JSC Prokatmontazh.

Deputy Chairman of the Audit Committee, member of the Personnel and Remuneration Committee and the Strategy and Development Committee of the IDGC of Centre Board of Directors.

First elected to the Company Board of Directors on June 11, 2009.

ALEXANDER VIKTOROVICH SHEVCHUK
INDEPENDENT DIRECTOR

Deputy Executive Director, Association for Investor Rights

Born in 1983, Russian citizen.

Graduated from the Financial Academy under the Government of the Russian Federation in 2005 with a degree in finance and credit.

Member of the Board of Directors of JSC UAZ, JSC MOSTOTREST, JSC IDGC South.

Chairman of the Grid Connection Committee, member of the Strategy and Development Committee, the Audit Committee and the Personnel and Remuneration Committee of the IDGC of Centre Board of Directors.

First elected to the Company Board of Directors on June 17, 2011.

ADDITIONAL INFORMATION ON THE MEMBERS TO THE COMPANY'S BOARD OF DIRECTORS:

Participation in the charter capital of IDGC of Centre	None exercised
Transactions with IDGC of Centre shares in 2013	None executed
Participation in the charter capital of the Company's subsidiaries	None exercised
Other transactions between the members of the Company's Board of Directors in 2013	None executed
Lawsuits against members of the Board of Directors	None filed
Training of the members of the Board of Directors at Company's expense	None carried out
Conflict of interests	None arisen
Work or participation in the management bodies of competitors	None performed

DURING THE PERIOD FROM JANUARY 01, 2013 TO JUNE 14, 2013, THE COMPANY WAS GOVERNED BY THE BOARD OF DIRECTORS ELECTED AT THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY ON AUGUST 23, 2012:

Full name	Position as of election
Alexander Markovich Branis	Director, Property Capital Management (Russia) Ltd
Dmitry Olegovich Gudzhoyan	General Director, IDGC of Centre
Andrey Valentinovich Kazachenkov	Member of the Management Board, First Deputy Chairman of the Management Board, JSC FGC UES
Denis Viktorovich Kulikov	Executive Director, Association for Investor Rights Non-profit Organization
Andrey Yevgeniyevich Murov	Executive Director, JSC IDGC Holding
Dmitry Igorevich Romeiko	Director for Special Duties, JSC IDGC Holding
Valery Nikolayevich Sedunov	General Director, Branch of JSC FGC UES – Backbone Grids of Center
Maria Gennadyevna Tikhonova	The Company has no information available
Roman Alexeyevich Filkin	Assistant General Manager for Electricity and Engineering, Prosperity Capital Management (Russia) Ltd
Oksana Vladimirovna Shatokhina	Director for Economics, JSC FGC UES; Director for Economics, JSC IDGC Holding
Alexander Viktorovich Shevchuk	Deputy Executive Director, Association for Investor Rights Non-profit Organization

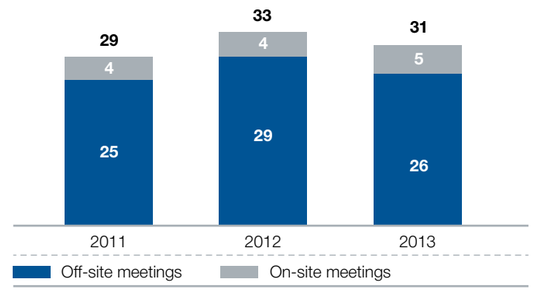
For details on the past members to the Board of Directors, please visit our corporate website at http://www.mrsk-1.com/en/investors/management/controls/directors/2013/.

ACTIVITIES OF THE BOARD OF DIRECTORS

According to the Company's internal documents[13], meetings of the IDGC of Centre Board of Directors take place on a regular basis in accordance with an approved plan of activities at least once every six weeks. Members to the Board of Directors are provided with the information and materials necessary to prepare for the meetings in advance, i.e. no later than 15 business days before the meeting day.

Meetings of the Board of Directors in 2013 reviewed the General Director's reports on IDGC of Centre core operations and made decisions concerning business priorities, various programs, plans and internal documents. Furthermore, the decisions were taken in connection with the convening of the Annual General Shareholders' Meeting, approval of the Company's transactions and a whole variety of other issues.

NUMBER OF BOARD MEETINGS IN 2011 – 2013



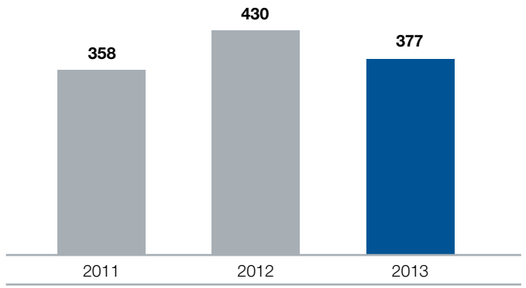
13 According to the Regulations on the Company's Corporate Secretary approved by the Board of Directors, Minutes dd. 02.11.2012 No. 26/12 and Regulations on the Company's Insider Information approved by the Board of Directors, Minutes dd. 29.12.2011 No. 27/11.

Thirty-one meetings of the Board of Directors took place in 2013. Decisions on the most pressing issues were made at the on-site meetings: five such meetings were held in the reporting year.

Issues such as the approval of the Company's business plan for the upcoming year, including the investment program, and the reports on the fulfillment of the business plan, the Company's KPI and the reports on their achievement are not only addressed during the on-site Board meetings but are also preliminarily discussed and approved during the meetings of the Strategy Committee, which is fully represented by the members to the Board of Directors. Thus, the Company strives to make the most weighted decisions.

For details on the past members to the Board of Directors, please visit our corporate website at www.mrsk-1.com/en/investors/management/decision/sovet/2013/.

NUMBER OF ISSUES TACKLED BY THE BOARD OF DIRECTORS:



In 2013, we evaluated the results of work of the Board of Directors for the first time. The evaluation included not only active participation of a Board member in the meetings, but also the efficiency of his/her work.

INFORMATION ABOUT PARTICIPATION OF THE BOARD MEMBERS IN THE BOARD MEETINGS IN 2013 AND THEIR PARTICIPATION IN THE COMMITTEE MEETINGS:

Full name of the Board member	Board of Directors	Committees under the Board of Directors: Strategy and Development	Audit	Reliability	Grid Connection	Personnel and Remuneration
JANUARY 01, 2013 TO JUNE 14, 2013						
Alexander Markovich Branis	93%					
Dmitry Olegovich Gudzhoyan	-					
Andrey Valentinovich Kazachenkov	100%		100%			100%
Denis Viktorovich Kulikov	100%		100%			100%
Andrey Yevgeniyevich Murov	100%					
Dmitry Igorevich Romeiko	100%		100%			100%
Valery Nikolayevich Sedunov	100%					100%
Maria Gennadyevna Tikhonova	80%					
Roman Alexeyevich Filkin	93%	85%	100%			90%
Oksana Vladimirovna Shatokhina	100%		100%			100%
Alexander Viktorovich Shevchuk	100%	100%	100%	100%	100%	100%
JUNE 14, 2013 TO DECEMBER 31, 2013						
Sergey Alexandrovich Arkhipov	100%					100%
Alexander Markovich Branis	100%					
Valery Anatolyevich Goncharov	94%					
Sergey Alexandrovich Demin	94%		83%			
Oleg Yuryevich Isaev	94%					
Madina Valeryevna Kaloyeva	75%					
Alexey Valeryevich Molsky	94%					
Maxim Mikhailovich Saukh	100%	100%	100%			100%
Roman Alexeyevich Filkin	94%	78%	88%			78%
Oksana Vladimirovna Shatokhina	100%		100%			100%
Alexander Viktorovich Shevchuk	100%	100%	100%		100%	100%

indicates that this Board member is not a member of the Committee.

REMUNERATION OF BOARD MEMBERS

Members of the IDGC of Centre Board of Directors receive remuneration under the Regulation on Remuneration and Payment to the Members of the IDGC of Centre of Board of Directors, which sets out the payment conditions and procedure and the procedure for calculating the amount of remuneration.

For details on this document, please visit our corporate website at: http://www.mrsk-1.com/docs_eng/sd.pdf.

Under this Regulation, Board members receive remuneration for participating in the meetings during the year and obtain two types of additional remuneration at the end of their working year in the case that the Company received net profit and its capitalization increased.

REMUNERATION OF THE IDGC OF CENTRE BOARD OF DIRECTORS:

	Calculation:	Paid in 2013:
FOR PARTICIPATING IN THE BOARD MEETINGS	› Five minimum monthly wages for category 1 workers for off-site participation in the meetings; › Ten minimum monthly wages for category 1 workers for on-site attendance of the meetings; › Remuneration of the Chairman of the Board attending the meetings is increased by 50%.	**9,184 thous. RUB**
ADDITIONAL REMUNERATION:*		
FOR NET PROFIT SHOWN IN THE ANNUAL FINANCIAL STATEMENTS APPROVED BY THE ANNUAL GENERAL MEETING OF SHAREHOLDERS	› Calculated based upon: – the amount of net profit under the annual financial statements approved by the Annual General Meeting of Shareholders; – the number of Board members according to the Company's Charter; – the number of meetings held during the year, which were attended by the relevant Board member. › Compensation of the Chairman of the Board is increased by 1.5; › Compensation may not exceed the fixed salary of the General Director established by the Board of Directors: – by over 5 times for a Board member; – By over 7 times for the Chairman of the Board.	**25,458 thous. RUB**
IN THE EVENT OF AN INCREASE IN COMPANY MARKET CAPITALIZATION DURING THE BOARD'S TENURE.	› 0.0175% of the increase in the Company's market value calculated for the period starting from the moment of election of the Board member to the moment of election of the new Board of Directors of the Company; › An average monthly volume of stock exchange transactions with the Company's ordinary shares should amount to at least 1.5 mln RUB during the term of office of Board members remunerated; › Remuneration may not exceed the fixed salary of the General Director established by the Board of Directors by over 5 times.	**There was no remuneration due to a decline of the Company's capitalization during the reporting period**

* Condition: the Board member attended over 50% of the Board meetings.

AGGREGATE PAYMENTS TO THE MEMBERS OF THE IDGC OF CENTRE BOARD OF DIRECTORS AMOUNTED TO 34,642.2 THOUS. RUB IN 2013[14]:

	Total remuneration to the Boards of Directors in 2013				
Remuneration for	17.06.2011 – 15.06.2012	15.06.2012 – 23.08.2012	23.08.2012 – 14.06.2013	14.06.2013 – 31.12.2013	Total
Participation in the meetings, thous. RUB	-	-	3,932.8	5,251.5	9,184.3
Additional compensation for net profit, thous. RUB	15,666.6	1,996.3	7,795.0	-	25,457.8
Total	15,666.6	1,996.3	11,727.8	5,251.5	34,642.2

COMPENSATION TO THE MEMBERS OF THE IDGC OF CENTRE BOARD OF DIRECTORS PAID BY THE COMPANY IN 2013 BY INDIVIDUAL, THOUS. RUB [15]:

Full name of the Board member	Individual remuneration in 2013
Sergey Alexandrovich Arkhipov	769.5
Alexander Markovich Branis	2,661.4
Valery Anatolyevich Goncharov	459.0
Alexey Vladimirovich Demidov	855.5
Sergey Alexandrovich Demin	513.0
Oleg Yuryevich Isaev	513.0
Denis Viktorovich Kulikov	1,516.9
Alexey Valeryevich Molsky	459.0
Andrey Yevgeniyevich Murov	2,309.9
Alexander Albertovich Popov	1,425.9
Dmitry Igorevich Romeiko	1,539.9
Valery Nikolayevich Sedunov	1,421.8
Maria Gennadyevna Tikhonova	851.3
Natalia Anatolyevna Umanets	570.4
Oksana Vladimirovna Shatokhina	2,025.9
Alexander Viktorovich Shevchuk	2,762.2

Individual remunerations of S.A. Belayeva, D.O. Gudzhoyan, A.V. Kazachenkov, M.V. Kaloyeva, A.Yu. Perepelkin, M.M. Saukh, A.V. Sergutin, A.G. Starchenko and R.A. Filkin are not presented in the Annual Report as these persons did not consent to the publication of this information.

14 Here and below, remuneration of the members to the management bodies, control bodies and committees of the Board of Directors includes personal income tax.
15 According to the current laws of the Russian Federation relating to personal data.

8.8 CORPORATE SECRETARY

The main purpose of the corporate secretary is to support the operation of the IDGC of Centre Board of Directors and its committees; the corporate secretary operates under the Company's Charter and the Regulation on the Corporate Secretary of IDGC of Centre.

For details on this document, please visit our corporate website at http://www.mrsk-1.com/common/upload/docs/sekretar-2012-en.pdf.

Andrey Alexandrovich Varlamov is the corporate secretary of IDGC of Centre. He also fulfills the function of the Head of Corporate Events of the Company.

Andrey Varlamov was born in 1978 and is a Russian citizen. He graduated from the Moscow University of Humanities in 2000 with a law degree. He has been working in the area of corporate law for over 8 years, including over 4 years in IDGC of Centre. Andrey Varlamov does not hold any shares of the Company or its subsidiaries. There have been no claims filed against the corporate secretary.

For details on the corporate secretary, please visit our corporate website at http://www.mrsk-1.com/en/investors/management/controls/secretary/.

04

COMMITTEES UNDER THE BOARD OF DIRECTORS

IDGC of Centre has five Committees under the Board of Directors:

- the Reliability Committee;
- the Grid Connection Committee;
- the Strategy and Development Committee;
- the Audit Committee;
- the Personnel and Remuneration Committee.

The Committees under the Board of Directors are deliberative and their purpose is to consider and make preliminary recommendations on the key issues addressed by the Board of Directors.

The Committees are comprised of representatives of various groups of shareholders, which makes the Committees work more effectively and increases objectiveness and independency of their decisions.

COMMITTEE	Reliability Committee	Grid Connection Committee	Strategy and Development Committee	Audit Committee	Personnel and Remuneration Committee
PURPOSE	Makes recommendations to the Board of Directors on: › fulfilling investment programs and energy facilities repair plans; › ensuring proper condition of the fixed assets; › ensuring overall reliability of grid equipment; › determining business priorities of the Company	› evaluates effectiveness of the Company's grid connection services rendered to consumers; › analyzes the Company's current state of affairs and makes proposals to the Company's Board of Directors on grid connection of certain consumers	Makes recommendations to the Board of Directors on: › defining strategic goals for the Company; › developing the Company's business priorities; › evaluates long-term effectiveness of the Company's operations; › improving investment appeal of the Company; › improving investment activity; › making sound investment decisions and recommendations to the Board to adjust the current development strategy of the Company	Develops and submits recommendations to the Company's Board of Directors on the regulation of: › the process and procedures for preparing financial (accounting) statements, and the review of financial (accounting) statements; › the effectiveness of internal control and risk management systems; › the selection of the independent external auditor and evaluation of his/her work; › the operations of the division conducting internal control/audit of the Company; › the Company's compliance with the Russian law requirements, industrial standards and the Company's internal documents	› Makes recommendations on the amount of remuneration to the Company's Board members; › Defines principles and criteria for remuneration and incentives for the members to the joint executive body and the person acting as the sole executive body of the Company, including a managing company or a manager; › Defines criteria for selecting candidates to the Board of Directors, and to the position of the sole executive body of the Company
DATE OF ESTABLISHMENT	January 2006	February 2009	April 2008	April 2008	April 2008
NUMBER OF MEMBERS DURING THE PERIOD: › from January to July 2013 › from July to December 2013	9 6	7 6	11 11	6 5	7 5
CURRENT MEMBERS TO THE COMMITTEE ELECTED BY THE BOARD OF DIRECTORS ON 15.07.2013	1. Olga Valentinovna Zuikova 2. Sergey Anatolyevich Shumakher 3. Andrey Vitalyevich Gritsenko 4. Eduard Vitalyevich Novomlinsky 5. Igor Georgyevich Polovnev 6. Sergey Yuryevich Rumyantsev	1. Alexander Vladimirovich Shevchuk 2. Yulia Eduardovna Sharkova 3. Alina Khandadashevna Akhmedova 4. Irina Borisovna Masaleva 5. Igor Georgyevich Polovnev 6. Olga Vladimirovna Tkacheva	1. Dmitry Igorevich Gotlib 2. Sergey Yuryevich Lebedev 3. Svetlana Alexandrovna Balayeva 4. Astkhik Artashesovna Bashindzhegyan 5. Andrey Vitalyevich Gritsenko 6. Alexey Nikolayevich Zharikov 7. Yury Nikolayevich Pankstyanov 8. Sergey Yuryevich Rumyantsev 9. Maxim Mikhailovich Saukh 10. Roman Alexeyevich Filkin 11. Alexander Vladimirovich Shevchuk	1. Oksana Vladimirovna Shatokhina 2. Roman Alexeyevich Filkin 3. Sergey Alexandrovich Demin 4. Maxim Mikhailovich Saukh 5. Alexander Vladimirovich Shevchuk	1. Oksana Vladimirovna Shatokhina 2. Sergey Alexandrovich Arkhipov 3. Maxim Mikhailovich Saukh 4. Roman Alexeyevich Filkin 5. Alexander Vladimirovich Shevchuk
LINK TO THE COMPANY'S CORPORATE WEBSITE containing information about the Committee members in 2013	http://www.mrsk-1.ru/en/investors/management/controls/committee/technological/2013/	http://www.mrsk-1.ru/en/investors/management/controls/committee/realty/2013/	http://www.mrsk-1.ru/en/investors/management/controls/committee/strategics/2013/	http://www.mrsk-1.ru/en/investors/management/controls/committee/audit/2013/	http://www.mrsk-1.ru/en/investors/management/controls/committee/cadre/2013/
NUMBER OF COMMITTEE MEETINGS IN 2013 including: meetings in praesentia	13 1	15 1	16 4	16 6	19 -
REMUNERATION paid to the Committee members in 2013, thous. RUB	438.5	367.8	759.5	594.2	604.4
LINK TO THE COMPANY'S CORPORATE WEBSITE containing information about the resolutions passed by the Committee in 2013	http://www.mrsk-1.ru/en/investors/management/decision/solution-committee/safety/2013/	http://www.mrsk-1.ru/en/investors/management/decision/solution-committee/joining/2013/	http://www.mrsk-1.ru/en/investors/management/decision/solution-committee/strategy-committee/2013/	http://www.mrsk-1.ru/en/investors/management/decision/solution-committee/decisions-audit/2013/	http://www.mrsk-1.ru/en/investors/management/decision/solution-committee/decisions-personnel/2013/

GENERAL DIRECTOR

The General Director oversees current operations of the Company, except for the matters that are the responsibility of the General Shareholders' Meeting, the Board of Directors, and the Management Board of the Company.

The Company's General Director is accountable to the General Shareholders' Meeting (presenting the Annual Report), as well as to the Company's Board of Directors, and submits regular reports to the Board on the achievement of the Company's KPI, programs and policies confirmed by the Company, and other matters pertaining to the Company's current operations.

Oleg Yuryevich Isaev is the current General Director of IDGC of Centre.

Oleg Isaev was born in 1969 and is a Russian citizen.

He holds two degrees, having graduated from the Military Institute holding the Order of the Red Banner at the USSR Ministry of Defense with a law degree and the Russian Public Administration Academy under the President of the Russian Federation in 2004 with a degree in public administration. Doctor of Law and a doctoral student at the Russian Research Institute under the Ministry of Internal Affairs.

Mr. Isaev has held executive positions at energy companies since 2009.

REMUNERATION OF THE GENERAL DIRECTOR

The amount of remuneration paid to the General Director is defined by the employment contract and the Regulation on Remuneration for the General Director of IDGC of Centre approved by the Company's Board of Directors in 2011.

The General Director receives bonuses based on the decisions made by the Company's Board of Directors in the following cases:

- based on KPI achievement for the quarter and year. The KPI for the General Director include financial, technological and investment indicators. Bonuses are paid after the Board of Directors has approved the report on achieving the KPI submitted by the General Director;
- in the case that the Company has achieved high return on equity (special and additional bonuses);
- in the case that the General Director has performed work of special significance; a one-time bonus may be paid to the General Director for receipt of awards.

In 2013, the General Director received bonuses for achieving the 2012 KPI, additional and special bonuses. These payments are included in the compensation paid to the members of the Company's Management Board, for details, please see page 141 of the Annual Report.

MANAGEMENT BOARD

The Management Board is the collective executive body of IDGC of Centre that performs the day-to-day administration of the Company.

The Management Board of IDGC of Centre went through significant changes in 2013: authorities of several members to the Management Board, i.e. of Konstantin Viktorovich Orlov, Dmitry Alexandrovich Andryushin, Rustem Leronovich Nabiullin were terminated in February-March 2013; Yulia Eduardovna Sharkova, who had held the position of Deputy General Director for Development and Service Provision, was elected a new member to the Management Board.

Deputy General Director for Capital Construction Igor Viktorovich Maksimov was elected to the Management Board in May 2013 and Deputy General Director for Economics and Finance Sergey Yuryevich Rumyantsev was elected to the Management Board in June.

In November 2013, the Board of Directors terminated the authorities of the member of the Management Board Yulia Eduardovna Sharkova and elected First Deputy General Director of IDGC of Centre Artem Yevgenyevich Kuranov to the Management Board.

IDGC of Centre members of the Management Board did not hold shares of the Company or its subsidiaries in the reporting year, and did not execute any transactions with the Company's shares to purchase or dispose of such shares. No claims were filed against the members of the Management Board since the Company has been in operation, including in 2013.

Members to the Company's Management Board do not hold positions in other companies that compete with the Company. There was no conflict of interests in 2013.

For details on the members to the Management Board, please visit our corporate website at http://www.mrsk-1.com/en/investors/management/controls/governing/2013/.

The Company's Management Board held 40 meetings in 2013 and discussed over 170 matters. Apart from the daily management of the Company, a large number of matters discussed involved recommendations to the Board of Directors on various issues, recommendations on key business priorities, quarterly review of reports submitted by the Deputy General Directors, and matters pertaining to the management of subsidiaries of the Company.

THE MANAGEMENT BOARD OF IDGC OF CENTRE AS OF DECEMBER 31, 2013:[16]

Member of the Management Board	Curriculum vitae
OLEG YURYEVICH ISAEV Elected to the Management Board on December 11, 2012 Chairman of the Management Board, General Director, IDGC of Centre	Born in 1969, Russian citizen. Graduating from the Military Institute holding the Order of the Red Banner at the USSR Ministry of Defense with a law degree and the Russian Public Administration Academy under the President of the Russian Federation in 2004 with a degree in public administration. Doctor of Law and a doctoral student at the Russian Research Institute under the Ministry of Internal Affairs
IVAN PETROVICH KLEIMENOV Elected to the Management Board on February 15, 2010 Deputy General Director – Branch Director, IDGC of Centre, Voronezhenergo	Born in 1960, Russian citizen. Graduated from the Volgograd Agricultural Institute in 1989 and 1987 with degrees in economics and electrical engineering
ARTEM YEVGENYEVICH KURANOV Elected to the Management Board on November 28, 2013 First Deputy General Director, IDGC of Centre	Born in 1976, Russian citizen. Graduated from the Moscow State Industrial University in 1997 with a law degree and the Academy of National Economy under the Government of the Russian Federation in 1998 with a degree in international business. Doctor of Economics
IGOR VIKTOROVICH MAKSIMOV Elected to the Management Board on May 15, 2013 Deputy General Director for Capital Construction and Investment, IDGC of Centre	Born in 1959, Russian citizen. Completed his higher education at the higher technical educational institution (factory) under the Likhachev Moscow Automobile Factory in 1985 with a degree in metallurgical engineering; completed an educational program at the Lomonosov Moscow State Academy of Fine Chemical Technology in 2007 with a degree in economy and business management and at the Gubkin Russian State University of Oil and Gas in 2009 with a degree in engineering. Doctor of Economics
SERGEY YURYEVICH RUMYANTSEV Elected to the Management Board on June 10, 2013 Deputy General Director for Economics and Finance, IDGC of Centre	Born in 1956, Russian citizen. Graduated from the Moscow Institute of Management with a degree in power industry management
OLGA VLADIMIROVNA TKACHEVA Elected to the Management Board on May 31, 2011 Deputy General Director for Corporate Governance, IDGC of Centre	Born in 1961, Russian citizen. Graduated from the Moscow Aviation Institute in 1984 with a degree in electric aircraft equipment and from the International Institute of Economics and Law in 1998. Doctor of Economics
SERGEY ANATOLYEVICH SHUMAKHER Elected to the Management Board on April 30, 2008 Deputy General Director for Technology, Chief Engineer, IDGC of Centre	Born in 1955, Russian citizen. Graduated from the Moscow Institute of Agricultural Engineering in 1977 with a degree in electrical engineering

16 Information is based on the personal data submitted by the members of the Company's Management Board.

REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD

All members to the Management Board of IDGC of Centre are employees of the Company holding managerial positions; in addition to their responsibilities under their employment contracts, they also have responsibilities pertaining to the members of the collective executive body of the Company, which is the IDGC of Centre Management Board.

Members of the Management Board receive a monthly remuneration of 15,800 RUB under additional agreements to their employment contracts for fulfilling their duties as members to the Management Board.

In accordance with the Regulation on the Incentives and Social Benefits for the IDGC of Centre senior managers, approved by the Company's Board of Directors, members of the Management Board are considered senior managers.

Senior managers receive bonuses based on the achievement of key performance indicators for the reporting period (quarter or year) and the level of such achievement. These key performance indicators are based on the KPI approved by the Company's Board of Directors for the General Director.

For details on the KPI system applied at IDGC of Centre in 2013, please see page 41 of the Annual Report.

In 2013, the members to the Company's Management Board received compensation for achieving the 2012 KPI alongside with additional and special bonuses based on the results of the Company's KPI achievement results.

REMUNERATION PAID TO THE MEMBERS OF THE COMPANY'S MANAGEMENT BOARD IN 2013:

73,053 thous. RUB

Remuneration of the members of the Management Board in 2013

including:

833 thous. RUB

Remuneration for participation in the activities of the management body

40,666 thous. RUB

Salary

30,096 thous. RUB

Bonuses

1,458 thous. RUB

Other

10

AUDIT COMMISSION

The Audit Commission monitors the Company's financial and business operations. The Committee is elected by the General Shareholders' Meeting for the upcoming year until the next Annual General Shareholders' Meeting under the Joint-stock Companies Federal Act, Article 24 of the Company's Charter and the Regulation on the Audit Committee.

For details on this document, please visit our corporate website at http://www.mrsk-1.ru/docs_eng/revizrk.pdf.

The Audit Commission fulfills the following functions:

- monitors the Company's financial and business operations;
- monitors compliance of the Company's financial and business operations with the laws of the Russian Federation and the Company's Charter;
- provides independent evaluation of information on the financial standing of the Company.

The current Audit Commission was elected at the Annual General Shareholders' Meeting on June 14, 2013. The Commission consists of five members who are not members of the management bodies or employees of the Company, which ensures their objectivity and independence.

IDGC of Centre members of the Audit Commission do not hold shares of the Company or its subsidiaries and did not execute any transactions with the Company's shares to purchase or dispose of such shares in 2013. There were no other transactions whatsoever between the members of the Audit Commission and IDGC of Centre.

For details on the Audit Commission, please visit our corporate website at http://www.mrsk-1.com/en/investors/management/supervisors/audit-commission/control_2013/.

The Company's Audit Commission met 11 times in 2013 and discussed the issues of approving the Audit Commission's plan of work, election of the Commission's chairman and secretary, and matters directly related to auditing and reviewing the audit reports.

For details on the resolutions passed by the Company's Audit Commission, please visit our corporate website at http://www.mrsk-1.com/en/investors/management/supervisors/decisions-inspection/2013/.

INFORMATION ON THE MEMBERS OF THE AUDIT COMMISSION AS OF DECEMBER 31, 2013:

Member of the Audit Comission	Curriculum vitae
MARINA ALEXEYEVNA LELEKOVA Chairman of the Audit Commission Director of the Internal Audit and Risk Management Department, JSC Russian Grids	Born in 1961, Russian citizen. Graduated from the Far Eastern Institute of Soviet Trade in 1982 with a degree in economics
IGOR YURYEVICH BOGACHEV Chief Expert of the Construction Audit and Investment Project Expert Review Group, Department of Internal Control and Risk Management, JSC FGC UES	Born in 1959, Russian citizen. Graduated from the Moscow Automotive Mechanical Institute in 1981 with a degree in mechanical engineering
IVAN ALEXEYEVICH GAICHENYA Director of the Security Department, JSC Russian Grids	Born in 1967, Russian citizen. Graduated from the Higher Border Military and Political School of the KGB of the USSR in 1990, and from the International Independent University of Environmental and Political Science in 1999 with a law degree and from the Military Academy of the General Staff of the Armed Forces in 2000
OLGA VLADIMIROVNA GOLUBEVA Leading Expert of the Corporate Governance Analysis and Control Division, Department of Corporate Governance and Shareholder-Investor Relations, JSC Russian Grids	Born in 1983, Russian citizen. Graduated from Moscow University for the Humanities in 2005 with a law degree
GALINA IVANOVNA MESHALOVA Chief Expert of the Internal Audit Division, Department of Internal Control and Risk Management, JSC FGC UES	Born in 1957, Russian citizen. Graduated from North Ossetia State University in 1980 with a degree in industrial planning

REMUNERATION OF THE MEMBERS OF THE AUDIT COMMISSION

In 2013, IDGC of Centre paid remuneration to the members of the Audit Commission in the amount of 2,636 thous. RUB for auditing financial and business operations in 2011-2012.

All payments to the Audit Commission are made in accordance with the current Regulation on Remunerations and Compensations of the Members of the IDGC of Centre Audit Commission. The Regulation stipulates that Audit Commission members receive remuneration in the amount of 25 minimum wages of category 1 workers for taking part in the audit (revision) of the Company's financial and business operations. Remuneration of the Chairman of the Audit Commission is increased by 1.5.

For details on this Regulation, please visit our corporate website at http://www.mrsk-1.ru/docs_eng/mrsk.pdf.

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AUDITOR

IDGC of Centre accounting statements for 2013 under RAS and the consolidated financial statements under IFRS were audited by an independent auditor, CJSC KPMG, a major international audit company.

FULL BUSINESS NAME	**Closed Joint Stock Company KPMG**
SHORT BUSINESS NAME	CJSC KPMG
ADDRESS OF THE AUDIT COMPANY	123317, Moscow, Russia, 10 Presnenskaya Embankment, Block C, 31st floor
TELEPHONE / FAX	+ 7 495 937 4477, + 7 495 937 4400/ 99
WEBSITE	www.kpmg.ru
E-MAIL	moscow@kpmg.ru
MEMBERSHIP IN SELF-REGULATING AUDIT ORGANIZATIONS	Russian Auditors Chamber Non-profit Partnership Self-regulating Organization of Auditors 105120 Russia, Moscow, Bldg. 1, 3/9 3rd Syromyatinsky Lane.
MEMBERSHIP IN BOARDS, ASSOCIATIONS OR OTHER PROFESSIONAL UNIONS (ORGANIZATIONS)	› Association of Russian Banks; › National Council on Corporate Governance - GCCG; › Russian Union of Industrials and Entrepreneurs - RSPP; › European Business Congress e.V. - EBC; › Association of Industrial Parks.

On June 14, 2013, the Annual General Shareholders' Meeting approved CJSC KPMG as the auditor for Company's financial statements under RAS for 2013 after the Board of Directors gave its preliminary approval to the Audit Commission's proposal on the auditor.

The Board of Directors established the amount of payment for the auditor's services in the amount of 2.1 mln RUB including VAT.

The auditor of the financial statements under IFRS is not subject to the approval by the General Shareholders' Meeting; it was determined by competitive selection. The cost of the auditor's services for auditing the 2013 financial statements under IFRS as per the contract amounted to 4.4 mln RUB including VAT.

CJSC KMPG had previously audited statements under IFRS. It had not provided services that were not related to auditing.

09

INFORMATION DISCLOSURE POLICY

IDGC of Centre strives to maintain maximum openness for shareholders, potential investors, and regulatory bodies, as well as its customers and other related parties, when carrying out its operations.

The Company publishes most of its disclosed information in compliance with the requirements of the Russian laws as an issuer of securities, a joint-stock company, and a retail energy market participant.

IDGC of Centre has a high corporate governance rating of NRCG 7+ and the credit ratings of "BB/B/ruAA" on the international scale and "AA" on the national scale, which places additional transparency and clarity requirements on the Company.

The Company strives to provide the most complete information disclosure, not limiting itself to the format and schedule for mandatory information disclosure in its effort to reach a more effective interaction with the related parties and enable them to make weighted decisions. The main document defining the principles for information disclosure is the Regulation on Information Policy, the new revision of which was approved by the Company's Board of Directors in August 2013.

For details on this document, please visit our corporate website at http://www.mrsk-1.com/common/upload/docs/Polozhenie_ob_inf_politike_novaya_redaktsiya_UTVERZHDENO_29_08_2013_english.pdf

The Company's General Director reports to the Board of Directors on compliance with this Regulation on a quarterly basis.

POSITIVE ASPECTS OF IDGC OF CENTRE INFORMATION DISCLOSURE NOTED BY THE CONSORTIUM OF RUSSIAN INSTITUTE OF DIRECTORS:

100% compliance with the legislative requirements for information disclosure in terms of:

- deadlines;
- format;
- volume;
- completeness and accuracy.

Clear and concise information policy

Free and unimpeded access to the financial information:

- financial statements under RAS and IFRS;
- financial and business indicators and their changes over several years.

Disclosure of the amount of individual remuneration of the members to the Board of Directors

Release of detailed information on all major transactions and related party transactions

In November 2013, the IDGC of Centre annual report for 2012 became one of the best reports among companies with a capitalization of 10 – 100 bln RUB during the Annual Report Competition held by the Moscow Stock Exchange.

Our Company's annual report for 2012 was included in the Top 50 Annual Reports of the LACP Annual Report Competition, getting 99 out of 100 points, or the 36th place. The online version of the report got the 'Golden Award' among the power industry companies that took part in this international American competition.

IDGC OF CENTRE INFORMATION DISCLOSURE SYSTEM:

Information disclosure requirements applied to the Company acting as:		Information disclosure channels:	
A joint-stock company	Federal Act No. 208-FZ On Joint-stock Companies dd. December 26, 1995	Website: www.mrsk-1.com	Mandatory disclosure of information to shareholders and investors, including information on the Company, management and control bodies, financial and utiility-related operations, reports and future plans
An issuer of securities	Federal Act No. № 39-FZ On the Securities Market dd. April 22, 1996	Interfax newsfeed and website	Mandatory release of information; press releases
	Regulation of the Federal Securities Market Commission On the Information Disclosure by Issuers of Securities	Press: Our Energy corporate newspaper; Izvestiya, Trud newspapers	The main means of communication between the executive body and Company branches; release of mandatory information
	Federal Act No. 224-FZ On the Prevention of Unauthorized Usage of Insider Information and Market Manipulation dd. July 27, 2010	International information platforms: Nasdaq, Euroland, Bloomberg, Thomson Reuters	Disclosure of information in English to a broad audience of related parties
		Distribution of information to the related parties, teleconferences, briefings, meetings, Release of document copies to shareholders and other related parties	Disclosure of information in English to a broad audience of investors
A retail energy market participant	Information disclosure standards for the wholesale and retail energy market participants	Online conferences, one-on-one and sgn meetings with members of the investment community, participation in international conferences	Participation of Company management, response to questions from investors and other related parties on operating results for the reporting period and future plans
A transparent company	Regulation On the Information Policy of JSC IDGC of Centre	Call-center: 8 800 50 50 115	A nationwide toll free line for shareholder inquiries; consulting with qualfied professionals on power supply issues

SECURITIES

A record 25% of net profit for 2012 was allocated for dividend payments

06

SHARE CAPITAL

- IDGC of Centre stock is listed on the Moscow Exchange in the Tier1 A Listing.
- The Company's shares are included in the base for computing the Second Tier Index of MICEX SC and the MICEX PWR index.
- The first and second coupon payments on Series BO-01 traded bonds were made in full.

IDGC of Centre charter capital totaled 4,221,794,146.80 RUB as of December 31, 2013, and was divided into 42,217,941,468 common shares with a par value of 10 kopecks. The Company did not issue preference shares.

The 2013 Annual General Shareholders' Meeting was held on June 14, 2013. The list of persons entitled to attend the meeting was compiled as of May 06, 2013.

The total number of persons entered into the Company's share register as of December 31, 2013 amounted to 14,189 persons. The largest shareholder of the Company is JSC Russian Grids holding 50.2% of common stock of IDGC of Centre, the state owns a 0.46% share in the charter capital of IDGC of Centre.

The structure of the share capital as of the end of 2013 and at the most recent closing date the Company's share register is the following:

SHARE CAPITAL AS OF DECEMBER 31, 2013,
excluding nominee shareholders:

	%
Depository and Corporate Technologies (LLC)	**50.2%**
National Settlement Depositary (CJSC)	**44.7%**
Others	**5.1%**

SHARE CAPITAL AS OF MAY 06, 2013:

Shareholder	% of shares issued
Private shareholders	5.4%
Corporate shareholders	91.6%
Nominee shareholders	0.0%
Trustees	3.0%
Total	100.0%
Russian residents	60.9%
Foreign residents	39.1%
Total	100.0%

IDGC of Centre has authorized stock, that is 258 532 common registered shares with a par value of 10 kopecks each. This stock was formed in 2008 as the difference between the authorized stock (42,218,200,000 shares) and the issued stock (42,217,941,468 shares) during restructuring of the Company as it merged the regional grid companies.

There were no additional issues of stock in 2013.

The Company has no stock in cross holding.

For details on the Company's shares, please visit our corporate website at: http://www.mrsk-1.com/en/investors/securities/stocks/.

	%
JSC Russian Grids	**50.2%**
Genhold Limited	**15.0%**
Immenso Enterprises Limited	**3.2%**
Energosoyuz Holdings Limited	**2.7%**
Norges Bank	**2.2%**
BNP Paribas Securities Services	**1.7%**
Lancrenan Investments Limited	**1.7%**
Rusenergo Fund Limited	**1.5%**
Protsvetaniye Holdings Limited	**1.4%**
Jamica Limited	**1.3%**
Others	**19.1%**

CONCENTRATION OF IDGC OF CENTRE SHARE CAPITAL AS OF MAY 06, 2013 including disclosure of information on the customers of nominee shareholders in time for the Annual General Shareholders' Meeting dd. June 14, 2013:

Number of shares	Number of shareholders	% of total shareholders	Number of shares	% of share capital
1-100	955	5.8%	39,904	0.0%
101-500	1,940	11.8%	629,265	0.0%
501-1,000	576	3.5%	438,978	0.0%
1,001-10,000	3,521	21.4%	13,913,024	0.0%
10,001- 100,000	5,714	34.8%	254,647,502	0.6%
100,001 – 1,000,000	3,308	20.1%	881,927,404	2.1%
1,000,001 – 10,000,001	309	1.9%	861,641,227	2.0%
10,000,001 – 100,000,001	82	0.5%	2,991,348,289	7.1%
Over 100,000,001	23	0.1%	37,213,355,875	88.2%
Total	16,428	100.0%	42,217,941,468	100.0%

REGISTRAR

The IDGC of Centre share register is kept by an independent registrar, LLC Reestr-RN (http://www.reestrrn.ru/).

The registrar's branches and the Company's branch divisions fulfilling certain registrar functions operate on the territory of IDGC of Centre activities for the convenience of shareholders and their representatives.

The full list of the registrar's branches and the Company branch divisions fulfilling certain registrar functions may be found on the Company's corporate website at: http://www.mrsk-1.com/en/investors/registrar/.

9.3

Capitalization, bln RUB

A1 Common shares

Moscow Exchange listing

A2 Traded bonds

Moscow Exchange listing

SHARES

IDGC of Centre shares are traded on the Moscow Exchange and are included in the highest 'A' listing of the first tier. The Company's shares are included in the base for computing the Second Tier Index of MICEX SC and the MICEX PWR index.

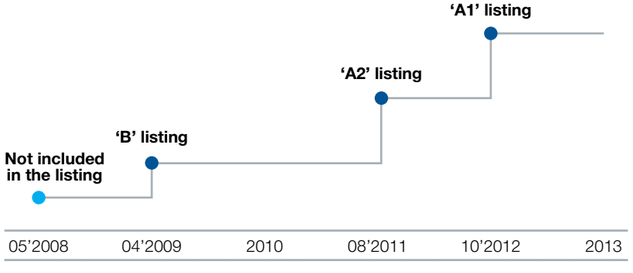
PRICE AND CAPITALIZATION AS OF DECEMBER 30, 2013:

Share price (at closing), RUB	0.2186
Share price (at closing), USD	0.007
Capitalization, mln RUB	9,284
Capitalization, mln USD	285

TICKERS AND INDEXES:

Tickers at the main stock exchanges and trading floors	Moscow Exchange: MRKC Bloomberg: MRKC RX Reuters: MRKC.MM
Inclusion to the stock indexes	Moscow Exchange: › MICEX PWR, › MICEX SC.

THE MOSCOW EXCHANGE LISTING:



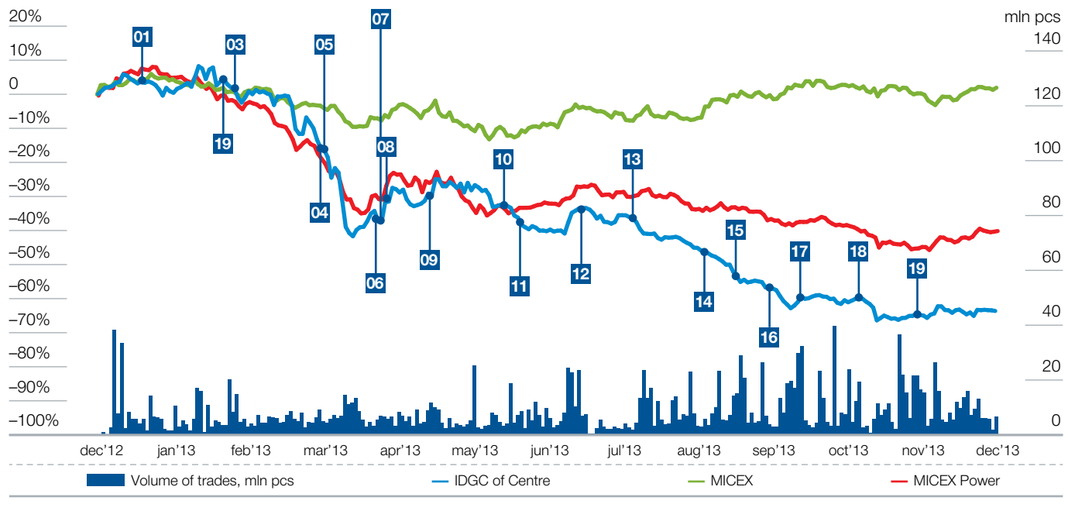
IDGC OF CENTRE SHARE QUOTATIONS COMPARED WITH CHANGES IN MICEX AND MICEX PWR INDEXES IN 2013:

	IDGC of Centre Shares, RUB	MICEX Index	MICEX PWR Index
30.12.2013	0.2186	1504.08	1,032.39
28.12.2012	0.60	1,474.72	1,707.42
Change	-63.6%	2.0%	-39.5%
MAX (at closing)	14.02.2013: 0.6492	28.01.2013: 1,562.93	28.01.2013: 1,850.32
MIN (at closing)	13.11.2013: 0.2021	13.06.2013: 1,281.89	03.12.2013: 938.03

Capitalization of IDGC of Centre in 2013 totaled 9.3 bln RUB and decreased by 62.2% vs. 2012. The past year was complicated for the whole power industry due to the implemented state tariff policy and the regular measures of the Russian government to stop the growth of power prices. Resolution of the 'last mile' issue and the problem of uncertainty in the industry also affected the market significantly. Nevertheless, the Company's management sees the current situation as stimulating the efficiency of current operations even further, which should increase the investment appeal of the Company's shares.

The change in quotations of the Company's shares during 2013 with the indication of key events that directly affected the trading outcome is shown below.

IDGC OF CENTRE SHARE QUOTATIONS COMPARED WITH CHANGES IN MICEX AND MICEX PWR INDEXES IN 2013:



KEY EVENTS THAT HAVE HAD A DIRECT IMPACT ON TRADING RESULTS IN 2013:

No.	News and events	Date (dd.mm.yyyy)	Source	Effect
1	IDGC of Centre was granted the functions of a supplier of last resort in the Bryansk, Orel and Kursk Regions	24.01.2013	External	▲
2	Standard & Poor's improved the credit rating of IDGC of Centre to 'BB/B/ruAA', with a 'Stable' outlook	25.02.2013	Internal	▲
3	The Moscow Commercial Court resolved to collect 5.1 bln RUB from IDGC of Centre in favor of NLMK	27.02.2013	External	▼
4	IDGC of Centre published its consolidated financial statements under IFRS for 2012	03.04.2013	Internal	▲
5	Information was released that the draft of the Russian Power Grid Complex Development Strategy until 2030 limits the power transmission tariff's share in the final price of electric power	05.04.2013	External	▼
6	News was released on providing IDGC of Centre with the functions of a supplier of last resort in the Tver Region	25.04.2013	External	▲
7	The Ministry of Economic Development suggested that the tariff indexation for grid companies in 2014-2015 is reduced from 9-10% to 6%	26.04.2013	External	▼
8	The IDGC of Centre Board of Directors recommended the Annual General Shareholders' Meeting to pay dividend in the amount of 25% of the Company's net profit under RAS	29.04.2013	Internal	▼
9	The President of the Russian Federation demanded that the 'last mile' issue to be resolved in the shortest time	21.05.2013	External	▼
10	The President of the Russian Federation suggested that the tariff growth rates for natural monopolies are restrained by the level of inflation during the next 5 years starting from 2014	21.06.2013	External	▼
11	The Federal Commercial Court for the Moscow District revoked the ruling of Moscow Commercial Court and the decree of the Ninth Commercial Court of Appeal under the claim of NLMK to IDGC of Centre	27.06.2013	External	▲
12	Highlights of the press conference with Deputy Minister of Energy of the Russian Federation Mikhail Kurbatov devoted to the investment program of JSC Russian Grids, the 'last mile' issue and the increase in electric power consumption were released	18.07.2013	External	▼
13	Mass media sources reported that the Russian Government was preparing a third solution of the 'last mile' problem	09.08.2013	External	▼
14	Mass media sources reported that the Prime Minister of the Russian Federation instructed the Ministry of Economic Development, the Ministry of Finance, the Ministry of Transport, the Ministry of Energy and the Federal Tariff Service to submit a draft of the outlook on social and economic development to 2014 and the upcoming 2015-2016 period, providing for zero indexation of tariffs of natural monopolies, to the Government	06.09.2013	External	▼
15	The Federal Tariff Service suggested that the RAB and capacity supply agreements should be amended	18.09.2013	External	▼
16	IDGC of Centre proceeded to fulfill its functions of a supplier of last resort in the Smolensk Region	01.10.2013	External	▲
17	Mass media sources reported that the Ministry of Energy did not exclude the chance of privatization of several interregional distribution grid companies in 2014	10.10.2013	External	▲
18	The Ministry of Economic Development released an updated draft of the Outlook on the Long-term Social and Economic Development of the Russian Federation to 2030	07.11.2013	External	▼
19	Oleg Budargin said that JSC Russian Grids was considering the possibility of transferring its grid assets to other companies for management	03.12.2013	External	▲

THE VOLUME OF TRADING AND AMOUNT OF TRANSACTIONS INVOLVING IDGC OF CENTRE STOCK ON THE MOSCOW EXCHANGE IN 2013:

Indicator	2012	2013
Number of transactions	37,874	33,310
Volume, mln shares	1,979.4	2,146.1
Volume, mln RUB	1,228.2	786.6
Volume, % of free float*	18.7	20.3

* Free float amounted to 25% as of December 31, 2013 according to the Index Committee of the Moscow Exchange.

+8.4%

Growth of the volume of trade[17] on the Moscow Exchange in 2013 vs. 2012

KEY INFORMATION ABOUT THE SECURITIES MARKET IN 2011-2013:

Indicators under RAS	2011	2012	2013
Closing price at year end, RUB	0.6167	0.6	0.2186
High for the year, RUB	1.368	0.8756	0.6954
Low for the year, RUB	0.5471	0.3867	0.1803
Average daily trading volume*			
› mln RUB	5.84	4.82	3.15
› mln shares	5.56	7.76	8.58
EPS, RUB	0.12	0.08	0.01
Dividend yield (year-end), %**	1.62	4.07	0.82
EV/EBITDA	3.20	4.08	3.59
P/E	4.83	7.14	31.70

* Average on the Moscow Exchange.
** Calculated as dividends/number of shares/year-end closing price. The figure for 2013 is stated as per the forecast. The amount of dividends for 2013 will be decided at the Annual General Shareholders' Meeting in summer 2014.

BONDS

The Moscow Exchange trades Series BO-01 3-year bonds of IDGC of Centre with a total par value of 4 bln RUB. The traded bonds are included in the 'A' listing of the second tier of the stock exchange.

The Company successfully offered its debut issue of shares in 2012 within the framework of diversifying its credit portfolio, which allowed the Company to borrow funds at more favorable conditions and reduce the level of dependency on one creditor in comparison with a bank loan.

In April and October 2013, we made the first and second coupon payments on the traded bonds in the amount of 357 mln RUB in full.

For details on the issue of traded bonds of IDGC of Centre, including analytical data of the investment banks (relating to fixed assets) releasing securities issue reviews, please visit our corporate website at: http://www.mrsk-1.com/en/investors/securities/bonds/.

Bond loan offering also had a positive influence on the history of public borrowings of the Company, which allowed us to raise funds on more favorable conditions as early as in 2013.

For details on the Company's loan policy and borrowings, please see page 80 of the Annual Report.

THE MAIN FEATURES OF THE BOND LOAN:

Amount (RUB)	Form, No. and date of issue	Maturity date	Coupon rate (RUB)	Issue documents
4,000,000,000	Certified bearer (exchange traded) bonds	Coupon 1: 17.04.2013	178,520,000	http://www.mrsk-1.com/common/upload/docs/Reshenie_o_vypuske_tsennykh_bumag-en.pdf
		Coupon 2: 16.10.2013	178,520,000	
		Coupon 3: 16.04.2014	178,520,000	
	4B02-01-10214-A dd. 13.07.2012	Coupon 4: 15.10.2014	178,520,000	http://www.mrsk-1.com/common/upload/docs/Prospekt_tsb-en.pdf
		Coupon 5: 15.04.2015	178,520,000	
		Coupon 6: 14.10.2015	178,520,000	

17 Volume in the number of shares.

03

SHAREHOLDER AND INVESTOR COMMUNITY RELATIONS

126
meetings
were held with the representatives of the investor community in 2013

17
analysts
carried out information and analytical coverage of the Company's shares

8.5
points
out of 10 – evaluation of IR perfomance in 2013

One of the key goals of the Company in dealing with the shareholders and representatives of the investor community is to increase the Company's investment appeal.

The Company continued to implement the program of improving corporate governance in 2013 based on the principles of reserving shareholder rights and information transparency.

The Company achieved the following results under this program in 2013:

- Shares of the Company remained in the 'A' listing of the first tier of the MOEX. We signed an agreement with JSC FINAM on rendering the market-maker services. This allowed IDGC of Centre to significantly improve the liquidity of its shares.
- In order to improve information transparency, we published the Company's annual report for 2012 on the electronic trading floors (Bloomberg, Euroland.com, Finam.ru), which helped us to attract the interests of new investors.
- The IR division increased the range of social media used to publish the main Company's information.
- The new 'IR News' section appeared on our corporate website to cover the key events which may be of interest to shareholders and investors (http://www.mrsk-1.com/en/investors/presentations/ir_news/).

The Company's management maintains ongoing dialog with the institutional investors and analysts by holding meetings, presentations, online conferences and conference calls, meets with individual shareholders and submits all necessary information.

One hundred and twenty-six meetings were held with the representatives of the investor community in 2013. The Company attended 11 major IR events, including investor forums hosted by VTB Capital and Sberbank, and organized several meetings within the course of the international investment conference of HSBC in London.

Online conferences at Finam.ru have proven to be an efficient means of communication with the minority shareholders and private investors. A recent event devoted to the release of the unaudited consolidated financial statements for H1 2013 under IFRS attracted significant interest and became a useful tool of establishing relations with shareholders and investors.

IR EVENTS IN 2013

Month	Events
APRIL	The Company's management attended a conference of ATON investment company, within the course of which 16 meetings with the representatives of the investment and pension funds were held.
	IDGC of Centre participated in the Russia Forum 2013, an investment forum hosted by Sberbank, within the course of which the Company's management organized individual meetings with the representatives of 15 investment funds and the Company's shareholders.
SEPTEMBER	IDGC of Centre held an online conference at Finam.ru devoted to the operating results for H1 2013 under IFRS, approval of the adjusted business plan and the 2013 Investment Program.
	The Company's management attended the 13th Annual CEEMEA Investor Forum of HSBC in London. Five one-on-one meetings with the investor community representatives acting on behalf of the major asset management funds and specializing in the investments on the developing markets were held during the conference.
	General Director of the Company Oleg Isaev attended the 17th St. Petersburg International Economic Forum, one of the leading annual international summits addressing the issues of economics and business.
OCTOBER	The Company attended the annual RUSSIA CALLING! Conference hosted by VTB Capital, during which the management of IDGC of Centre held 14 individual meetings with the representatives of both Russian and foreign investment funds.
NOVEMBER	During the Utilities' Day conference hosted by BCS Financial Group, the management of IDGC of Centre met with the representatives of the investor community and discussed operating results of the Company for Q1-Q3 2013.

Regular information and research coverage of the electric power industry as a whole and IDGC of Centre stock in particular is carried out by 17 investment bank analysts, including VTB Capital, Sberbank CIB, Renaissance Capital and HSBC. We should point out that many banks stopped covering electric energy companies due to the increase of risks and the reduction of investment appeal of the industry in 2013. This is why the number of investors is slightly lower than in the previous year.

We have been surveying the investor community representatives for several years now in order to give an objective evaluation of the IR division operations and reveal the areas, in which shareholder and investor relations require improvement.

The buy-side and sell-side respondents singled out information transparency, a high corporate governance rating and high qualification of management as the key strengths of the Company in 2013. The respondents gave positive evaluation to the operations of the IR division (8.5 out of 10 points).

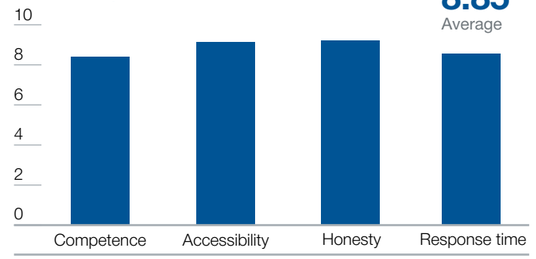
The Company's corporate website is one of the key means of interaction of the IR service with the investor community. For current information, news and reviews, please follow the link at: http://www.mrsk-1.com/en/investors/presentations/.

Information for the analysts, shareholders and investors is also published in the social media: Twitter, LinkedIn, Slideshare and foreign information sources: Bloomberg, Thomson Reuters, Google finance, DJ Market watch.

IR SERVICE PERFORMANCE EVALUATION:

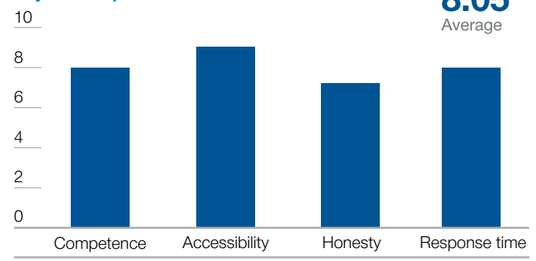
Sell-side respondents

8.85
Average



Buy-side respondents

8.05
Average



04

DIVIDEND POLICY

IDGC of Centre has been maintaining a positive dividend history for the past three years. 2013 became a special year for the Company: the Annual General Shareholders' Meeting decided to allocate 25% of the Company's net profit under RAS for the payment of dividends.

The Company's dividend policy consists in transparent determination of the dividend amount and its payment procedure and is regulated not only by the Russian laws and the Company's Charter but also by the relevant Regulation approved by the Company's Board of Directors in 2010.

We believe that dividends are an integral part of shareholder's income along with the increase in the Company's share value, and strive to increase their size.

For details on the Regulation on the Company's Dividend Policy, please visit our corporate website at http://www.mrsk-1.com/common/upload/docs/KGyq5x.pdf.

DIVIDEND HISTORY IN 2011-2013:

Indicator (under RAS)	2011	2012	2013
Total dividends, thous. RUB	610,932	422,179	862,935
Dividend per share, RUB	0.01447	0.01	0.02044
Share of net profit under RAS used for dividends, %	12.96	8.11	25.00
Date of the GSM, on which the decision on dividend payments was made	June 17, 2011	June 15, 2012	June 14, 2013
Share of dividends paid, %*	99.0%	99.01%	99.0%

* Dividends were not paid to shareholders failing to submit their banking details under Clause 5, Article 44 of Federal Act No. 208-FZ On Joint-stock Companies dd. 26.12.1995, or who submitted inaccurate details. Dividends accrued on unidentified shares are paid after the shareholder rights to the shares are established.

The amount of dividend payment in 2013 will be established by the Annual General Shareholders Meeting in June 2014.

THE DECISION TO PAY DIVIDENDS IS MADE PROVIDED THAT THE FOLLOWING CONDITIONS STIPULATED BY THE CHARTER AND THE REGULATION ON THE IDGC OF CENTRE DIVIDEND POLICY ARE FULFILLED:

Condition	Fulfillment 2011	2012	2013 plan	Notes
MAIN				
Receipt of net profit for the financial year	+	+	+	Not including revaluation of financial investment
Debt/EBITDA < 3	+	+	+	Calculated based on the current Regulation on the Company's Borrowing Policy. If this condition is not met, debt payment takes priority over dividend payment.
ADDITIONAL				
Absence of major technical violations	+	+	+	The limit for failures described in Clause 2.1 may not be exceeded. Instructions for investigating and reporting technological violations associated with power grids, power plants, boilers, power and heating grids RD153-34.0-20.801-2000 approved by the Ministry of Energy on 29.12.2000.
Meeting reliability target in the Company' KPI	+	+	+	

Formula for calculating dividends stipulated by the Regulation on the IDGC of Centre Dividend Policy:

DIV = NP — PROV RF' — PD — PL,

where:

- DIV – total amount of net profit used for dividends;
- NP – net profit for the financial year (not including revaluation of financial investment) received in accordance with the long-term regulatory indicators established for the Company;
- PROV RF' – mandatory provisions to reserves and other funds under the Company's Charter; correlation with the total provisions matches the share of profit not including revaluation of financial investments in total net profit;
- PD – a part of profit used for investment and development of the Company;
- PL – a share of profit used to cover operating losses of the previous years, if any (not more than 0.5*(NP — ProvRF'— PD)).

TAXATION OF DIVIDEND PAYMENTS

The dividends paid by the Company are taxable under Articles 224 and 284, Part 2 of the Russian Tax Code at the following rates:

Corporate income tax			Personal income tax	
Russian resident*	Russian resident	Foreign resident	Russian resident	Foreign resident
0%	9%	15%**	9%	15%

* Holding at least 50% of the Company's charter capital continually for at least 365 calendar days as of the date, on which the decision on dividend payments is made.
** Except for the cases where a tax rebate is applied.

A 30% tax rate is applied to the income of persons whose information has not been submitted to the tax agent according to the requirements of Articles 214.6 and 310.1 of the Russian Tax Code, whose shares are included in a securities account of a foreign nominee holder, a securities account of an authorized foreign holder and/or a securities account of depositary programs.

In the cases where a double taxation treaty applies, tax payments are made at the rate specified therein.

For details on the dividend policy and the dividend history, please visit our corporate website at: http://www.mrsk-1.com/en/investors/dividend/.

INTERNAL AUDIT AND RISK MANAGEMENT

The internal audit system is used to ensure the efficient and effective organization of work

01

MODEL OF INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM

› The Company uses a three-tier internal audit and risk management system that consists of preventive, current, and follow-up controls.

› Internal audit and risk management are conducted under the Company's Internal Audit Policy and Risk Management Policy.

The internal audit and risk management system of the Company is part of the Company's corporate governance system, which includes all of the procedures, methods and mechanisms for auditing, created and used by the Board of Directors, the Audit Commission, executive bodies, management and all Company's employees to ensure reasonable guarantees of achieving goals in the following areas:

- efficient and effective organization of work;
- compliance with the legislative regulations applied to the Company's operations and the Company's internal regulations;
- prevention of the wrongful actions of the Company's employees and the third parties with regard to the Company's assets;
- reliability, completeness and timeliness of preparation of all kinds of reports.

The Board of Directors has approved the following regulations to improve the internal audit and risk management system:

- the Internal Audit Policy (Minutes No. 19/12 dd. August 03, 2012);
- the Risk Management Policy (Minutes No. 13/10 dd. June 10, 2010).

THE INTERNAL AUDIT AND RISK MANAGEMENT SYSTEM IS IMPROVED ON ALL LEVELS OF THE COMPANY'S MANAGEMENT IN THE FOLLOWING AREAS OF CONTROL:

Preventive control	Current control	Follow-up control
THAT IS: › creation and optimization of processes (areas of operation) with the development of the minimum required audit procedures taking into account the expenses on their implementation and the implementation effect; › formalization (regulation) of operations, i.e. the Company's processes are described in the internal documents; the participants, their powers and responsibilities are documented; the checkpoints and measures are identified; › risk management measures, i.e. the Company monitors, identifies and evaluates risks, develops and takes measures to manage the risks	THAT IS: › execution of the audit procedures by the process owners (heads of the divisions) and the Company's employees within the course of their fulfilling their direct duties; › control over the achievement of the qualitative and quantitative indicators of the Company's operations and certain areas of operations (monitoring of the efficiency of current operations). Corrective measures are taken after completing the monitoring procedures	THAT IS: › internal audit which is carried out by way of: – auditing the Company's structural divisions, processes, projects and areas of operation; – evaluating the reliability and efficiency of the Company's internal audit system; – conducting special (official) investigations of abusive practices (fraud), damage caused to the Company and its subsidiaries / controlled companies, improper or inefficient utilization of resources; › external audit which is carried out by an independent auditor of the Company by way of auditing the Company's annual reports under RAS and evaluation of the Company's internal audit system; › audits performed by the audit commission of the Company and its subsidiaries / controlled companies by way of checking, whether the financial and business operations of the Company and its subsidiaries / controlled companies comply with the laws of the Russian Federation, the Charter and internal documents of the Company and its subsidiaries / controlled companies

THE INTERNAL AUDIT SYSTEM ENCOMPASSES THE FOLLOWING PARTICIPANTS:

- The Company's Board of Directors and its committees (the Audit Committee and others).
- The Company's Audit Commission.
- The Company's collective executive body (the Management Board).
- The Company's sole executive body (the General Director).
- The collective bodies serving consulting and advisory purposes created by the Company's sole executive body to perform specific functions (committees, commissions, etc.).
- Heads of the Company's units and structural divisions.
- Employees of the Company's structural divisions carrying out the functions of control as part of their job duties.
- The Department of Internal Audit and Risk Management.

POWERS AND RESPONSIBILITIES OF THE MAJOR PARTICIPANTS OF THE INTERNAL AUDIT SYSTEM:

1. The Company's Board of Directors is responsible for ensuring the creation of the Company's internal audit system, control of its operation and the development of a general strategy of its development.

2. The Company's Audit Commission is responsible for:
   - controlling the Company's financial and business operations;
   - observing the Company's compliance with the laws of the Russian Federation and the Company's Charter when carrying out its financial and business operations;
   - carrying out an independent evaluation of information about the Company's financial standing;
   - confirming reliability of data contained in the reports and other financial documents of the Company.

3. The Audit Committee under the Company's Board of Directors is responsible for:
   - selecting the auditor(s) and their valuation;
   - evaluating reliability of the Company's financial statements (including the external auditor's opinion);
   - evaluating the external auditor's opinion;
   - evaluating the efficiency of the internal audit system and preparing improvement suggestions.

4. The Company's Management Board prepares reports on the Company's operations in the area of the internal audit system, including the review and analysis of the reports on the internal control of risks.

5. The Company's General Director is responsible for:
   - ensuring the creation of an internal audit system at the Company and its ongoing effective and reliable operation;
   - submitting suggestions on the improvement of the internal audit system to the Board of Directors.

6. Heads of the units and structural divisions of the Company are responsible for:
   - ensuring implementation of the internal audit principles;
   - organizing an effective system for controlling the processes (areas of operations), which they are in charge of;
   - effective achievement of the operational goals of the processes (areas of operations), which they are in charge of;
   - ensuring regulation of the processes (areas of operation), which they are in charge of;
   - evaluating the processes (areas of operations), which they are in charge of, in order to determine whether they need to be optimized to improve their efficiency and compliance with the changing conditions of the external and internal environment, and for organizing the development of suggestions to improve the control procedures;
   - ensuring the detection and elimination of the defects in control procedures and the processes' control environment;
   - controlling the risks pertaining to the processes (areas of operations), which they are in charge of, and for organizing the implementation of the control procedures.

7. Employees of the Company's structural divisions, fulfilling the control procedures due to their job duties, are responsible for:
   - fulfilling the control procedures within the internal audit system in accordance with the job descriptions and the established regulatory documents;
   - monitoring the fulfillment of the control procedures;
   - carrying out self-evaluation of the fulfilled control procedures and taking part in the improvement of the internal audit system;
   - ensuring timely notification of the line managers of the instances where the fulfillment of the control procedures and the risk management measures becomes impossible for any reasons and/or where the design of such control procedures/risk management measures requires modification due to the changes in the internal and/or external conditions of the Company's operations, and for ensuring the development and submitting of suggestions to the management on the implementation of control procedures and risk management measures in the relevant areas of operation.

8. The Department of Internal Audit and Risk Management carries out:

8.1. Preventive control by way of:

8.1.1. implementing policies, standards and procedures for establishing the internal audit and risk management system, in particular:
   - ensuring the development and improvement of the internal audit system at the Company, control over the operations of the structural divisions and branches of the Company and its subsidiaries in the area of development and improvement of the internal audit and risk management system;
   - implementing a unified system of methods and regulating the activities aimed at creating and improving the risk-oriented internal audit system; standardizing the Company's internal audit and organizing the unification of operations carried out by the subsidiaries' audit commissions;
   - coordinating the efforts aimed at supporting and monitoring the designated status of the internal audit and risk management system;
   - disclosing information pertaining to the internal audit and risk management system to the external users.

8.1.2. organizing the risk management process, in particular:
   - organizing and coordinating operations to reveal, evaluate and manage risks;
   - evaluating the sufficiency and efficiency of the risk management measures and the control over the fulfillment of the risk management measures in accordance with the plan;
   - preparing recommendations for the risk owners and management associated with the issues of risk management and the efficiency of measures being taken;
   - organizing the review and approval by the Company's executive bodies of the risk management measures and the strategy of reacting to external hazards;
   - organizing notification of the Company's management bodies about the risk management results, trends and the status of the risk management system.

8.1.3. Assisting in the creation of effective processes, in particular, assisting the management in the creation of the control environment, preparation of recommendations regarding the description and implementation of the control procedures to the processes and determination of responsibilities of the officers.

8.2. Current control by way of:

8.2.1. monitoring the fulfillment of internal audit measures and procedures at the Company;

8.2.2. taking additional measures of current control in the key and high-risk processes (finance, investment, procurement, power transmission and grid connection operations, etc.) by participating in the work groups, commissions, collective bodies; ensuring the execution of analysis and the issue of opinions, including expert opinions (keeping in mind the necessity of maintaining the balance between participation in the current control procedures and maintaining independency when carrying out follow-up control);

8.2.3. organizing efficient interaction and assisting the Company's Audit Commission, in particular:
   - organizing interaction with the Company's Audit Commission;
   - providing administrative support of the operations of the Company's Audit Commission;
   - organizing the development of corrective measures after the Company has been audited in order to eliminate the deficiencies and follow the recommendations issued by the Company's Audit Commission and controlling their fulfillment.

8.2.4. interacting with the state control and supervisory bodies on the issues of internal audit, in particular:
   - ensuring compliance with the requirements of the state control bodies to the internal audit system;
   - ensuring cooperation with the state control and supervisory bodies during the course of control measures taken by the latter;
   - coordinating the operations aimed at developing corrective measures to eliminate the deficiencies and follow recommendations and instructions issued by the state control and supervisory bodies; controlling their fulfillment;
   - monitoring the checks carried out by the control/supervisory bodies.

8.2.5. interacting with the external auditor of the Company and its subsidiaries on the issues of evaluating the efficiency of the internal audit and risk management system, in particular:
   - providing assistance and information about the status of the internal audit system of the Company and its subsidiaries;
   - coordinating conclusions of the external auditors on the status of the internal audit and risk management system;
   - evaluating the quality of the external auditor's work, preparing an opinion on the basis of this evaluation and submitting it to the related parties.

8.2.6. interacting with the Audit Committee under the Company's Board of Directors, in particular:
   - interacting with the Audit Committee under the Company's Board of Directors on the issues of internal control, risk management and internal audit;
   - ensuring that the Audit Committee fulfills its functions most effectively: performing preliminary analysis of all the materials submitted for consideration by the Audit Committee under the Company's Board of Directors in order to evaluate the completeness of disclosure and objective character of the information;

8.2.7. preparing expert opinions, opinions and suggestions regarding the materials submitted for consideration to the senior management and the executive bodies of the Company and its subsidiaries on the issues associated with the responsibility of the Department of Internal Audit and Risk Management.

8.3. Follow up control by way of:

8.3.1. ensuring effective functioning of the internal audit system, in particular:
   - planning, organizing and conducting internal audits of the structural divisions, branches, processes, projects and areas of operations;
   - preparing recommendations to increase the efficiency and effectiveness of operations, improve corporate control, increase the efficiency of internal control and risk management processes on the basis of the results of the internal audit and evaluation;
   - evaluating the reliability and effectiveness of the internal audit and risk management system;
   - participating in special (official) investigations of abusive actions (fraud), caused damage or improper or inefficient utilization of resources;
   - carrying out follow up control and control of over the implementation of corrective measures on the basis of the internal audit;
   - organizing notification of the management bodies about the audit results and the status of the internal audit and risk management system, the major trends and changes in the operations, submitting suggestions to increase the efficiency of operations;

8.3.2. organizing and coordinating operations of the subsidiaries' audit commissions and exerting follow up control and control over the elimination of deficiencies by the subsidiaries detected during the audit and the fulfillment of recommendation and instructions of the audit commission.

1. INDUSTRY RISKS

IDGC of Centre relates the deteriorating situation in the industry to:

1) Operating (technological) risks

Operating (technological) risks posed by the insufficient funding for repairs and maintenance and a shortage of investment funds, by the wear and tear of the grid, wrongful usage of the grid equipment, abnormal operating conditions and accidents, which may result in breakdowns (failures) of the grid equipment and irreparable damage to the installations and buildings.

Poor condition of the equipment caused by physical deterioration and obsolescence is one of the major operating risk factors, which generally include:

- Poor quality of power transmission services;
- Equipment failures leading to minor or desperate energy shortage with the adverse social, environmental and economic impact.

The probability of grid failure (caused by the damage) is medium at present; in risk events the consequences for the Company can range from minor to medium. To reduce the negative effect of risk events and minimize operating risks all major facilities of the company are insured. Besides, a whole range of measures is implemented to guarantee the trouble-free appropriate work of the equipment and facilities:

1. An automated asset management system to optimize the work, maintenance and repairs of grid assets and to regulate investment has been introduced.
2. Innovative equipment is being introduced as part of modernization of grid assets to reduce the wear and tear of the power facilities.
3. A long-term reliability program has been developed and implemented to ensure trouble-free work and system reliability.
4. Tendering is held for service and procurement organizations in order to achieve higher quality of services and materials, increased responsibility of contractors and reduced costs per unit.

Industrial risk management of the company is conducted in accordance with federal laws on industrial safety, as well as under control of compliance with industrial safety requirements.

2) Regulatory risks stemming from state tariff regulation

Electricity transmission through distribution networks and connection to the power grid are regulated by the state. Thus, the formal approval of tariffs for the Company directly affects the amount of revenue.

The Russian Government policy has been to contain growth of tariffs for products and services of natural monopolies. A step-by-step reduction in payment for grid connection is provided for by a number of measures approved by the Government Decree No. 1144r dd. June 30, 2013. The tariff increase for electricity transmission is restricted by the pace determined by the forecast of the socio-economic development of the Russian Federation for the relevant year (hereinafter referred to as Forecast) or specific development scenarios for the domestic economy, approved by the Russian Government. The 2014 Forecast accounts for the decision not to index tariffs of natural monopolies, including TGC, and to adjust them to the level of last year's index of consumer prices growth in the upcoming years.

Moreover, Federal Law No. 308-FZ On Amending the Federal Law On the Electric Power Industry (hereinafter - Federal Law No. 308-FZ) dd. November 6, 2013, forbids the lease of UNPG facilities to the territorial grid organizations, with the exception of some areas with numerous large industrial customers whose power installations are connected to those facilities (it applies to Belgorod, Kursk, Lipetsk and Tambov regions located within the service area of IDGC of Centre) from January 1, 2014 onwards. For such consumers a special tariff (HV-1) has been introduced valid till July 1, 2017, which takes into account the step-by-step reduction of cross-subsidization. The implementation of Federal Law No. 308-FZ may result in the revenue losses and, as a result, the financial deterioration of the Company and reduction of the Company's investment program.

To compensate for the shortfall in income of grid companies, Federal Law No. 308-FZ provides for as little as 7% increase in tariffs for electricity transmission (except for consumers to HV-1) from 1 January 2014 as compared to the level as of December 31, 2013.

The existing legislation conferred on the Company's branches Bryanskenergo, Kurskenergo, Orelenergo, Smolenskenergo and Tverenergo the status of suppliers of last resort (hereinafter SLR) in 2013. In addition to providing services in the key areas (electricity transmission and grid connection) the above-mentioned branches fulfill SLR functions, keeping up the current sales premiums established for organizations which performed those functions earlier. The current legislation does not provide for the compensation of the shortfall in income caused by the newly acquired SLR status of local grid operators during the regulatory period when the status was granted.

To minimize risks, the following measures are taken:

1. Work is being carried out with Russia's tariff regulatory bodies to provide compensation for the shortfall in income of the grid operators caused by the implementation of Federal Law No. 308-FZ, through the additional tariff growth for other consumers beyond the forecast by the Ministry of Economic Development.
2. Regular work on economical justification of the expenses included in the tariffs is being carried out. This comprises the inclusion of the shortfall in income of the previous periods as well.
3. Systemic efforts to reduce costs and optimize the investment program are made.
4. Measures are taken in cooperation with the Federal Service on Tariffs and tariff regulating regional bodies to amend the current legislation of the Russian Federation in the area of price setting for natural monopolies aimed at taking into account the interests of grid operators while setting tariffs for the retail market.
5. Negotiations are held with the senior management of the companies that won the status of a SLR after the competition organized by the Ministry of Energy, focused on:
   - raising funds through involving credits facilities in order to compensate for shortfalls of payment to IDGC of Centre for the power transmission services, caused by cash deficiency due to the slow signing energy supply contracts with customers;
   - hiring all employees who are engaged in energy retail in the branches of IDGC of Centre to avoid shortfalls in the Company's income.

6. Work to conclude "direct" contracts on electric transmission with large consumers is conducted to minimize possible risks of payment shortage on the part of companies that were conferred the status of a SLR supplier after the tender held by the Ministry of Energy.

3) Environmental risks

Environmental risks are possible harmful emissions from fixed facilities (in case of IDGC of Centre the risk is insignificant) and transport systems. To prevent the possible negative impact on the environment, the Company controls the toxicity of exhaust emissions from vehicles, so that these risks are minimal and might provoke just minor consequences for the Company.

Environmental risks can also consist in possible leakage of transformer oil at substations lacking oil receivers into rivers and lakes with the surface water run-off. This can lead to oil contamination of fisheries. The probability of these risks is estimated as insignificant, with low consequence probability for the Company.

The Environmental Policy of IDGC of Centre approved by the Board of Directors is a tool to reduce ecological risks and to improve environmental security by ensuring reliable and environmentally friendly transmission and distribution of energy and an integrated approach to the use of natural energy resources. In the course of realization of the environmental policy, special attention is rendered to the importance of recycling various hazard classes of waste. Such an approach significantly reduces the risk of adverse impact of toxic substances on the soil and, consequently, on human health.

A promising long-term program of IDGC of Centre contributes to environmental risk reduction through replacing 6-10 kV oil circuit breakers with vacuum ones and installing reclosers, which reduces the technological cycles of dielectric oils and exclude their contact with the environment and the necessity to bear the costs of recycling of the used oils.

As part of the activities envisaged by the long-range program of technical renovation and reconstruction, the Company is carrying out the replacement of electrical components and assemblies with advanced equipment designed to ensure high environmental safety.

4) Profit risks caused by lack of payment discipline of power supply companies or a decrease in energy consumption

The main consumers of IDGC of Centre are retail companies supplying electricity to ultimate customers. The main risk involves the probability of increased receivables resulting from the breaches of the payment discipline of ultimate customers and the need for additional credit resources. There is a risk of cash shortage at the Company's accounts caused by the time gap during the payment from the retailer and the need to finance current operations. The risk in this case is moderate. To reduce the risk and minimize its consequences, managers are conducting a prudent credit policy and the policy of managing receivables to optimize their size and promote debt collection. The Company also does claims-related work to collect overdue receivables and implements a policy presupposing direct contracts with consumers of electricity.

As the revenues of IDGC of Centre are affected by the trends in regional energy consumption, there is a risk of a revenue shortfall due to the inability to reach the energy consumption targets initially set by individual large customers. Now the probability of this risk is assessed as low and might provoke consequences for the Company classified from moderate to grave.

5) Risks associated with the floating maximum level in electric energy transmission services

Risks associated with the floating maximum level of service provision are presently expressed by the following circumstances:

- Some regions and municipal entities of the Russian Federation have no relevant economic development plans, which are expected to indicate the dynamics of energy consumption growth for a certain period;
- Power consumption of the Russian economy in general may be reduced by the adoption of Federal Law No. 261-FZ On Energy Saving and Increasing Energy Efficiency and an Amendments to Certain Legislative Acts of the Russian Federation dd. November 23, 2009 and by the introduction of social norms of consumption;
- Power consumption of the Russian economy may be reduced due to a future economic recession/crisis;
- Power consumption may be reduced due to a downturn in the markets of major industrial consumers;
- Another risk is a drop in consumer capacity caused by changing the day and night load curve (load shift to the night hours without a decrease in consumption).

These circumstances make it impossible to accurately forecast the needed investment in the industry, which would be able to meet the power demand in the mid-term and in the far perspective. Besides, these circumstances may result in a drop in the profit element of the budget of IDGC of Centre in the long run. This risk imperils the compliance with the commitment of providing electricity transmission services.

The Company estimates the probability of these risks as moderate, bearing moderate consequences to the Company's activities. To minimize the risk, the following steps are being taken:

- cooperation with the Russian regional state governments and local authorities to develop mid- and long-term plans for the economic development of the regions;
- diversifying the services portfolio of the Company.

6) Risks associated with a lack of qualified workforce in the industry

The industry is currently witnessing a reduced inflow of qualified personnel. In case this current trend is carrying on, the Company may face a shortage of qualified personnel in its service areas. This risk is estimated as moderate in the long term, with consequences for the Company ranging from minor to moderate. In order to minimize this risk, the Company is undertaking the following steps:

- The Company supports regional secondary and higher institutions that train the personnel for the industry, creates and renders financial assistance to the programs aimed to train power engineering specialists with subsequent employment of the qualified specialists;
- The Company implements programs to boost motivation and reduce the staff turnover, it seeks the ways to offer incentives other than financial ones, and it encourages collective bargaining.

7) Risks associated with possible fluctuations in prices for utilities and services used by IDGC of Centre (assessed separately for domestic and foreign markets) and their impact on the Company's activities and commitments under securities obligations

Risks of a price increase for accessories, equipment and other materials may emerge while operating the facilities.

These risks are primarily caused by inflation processes and can be minimized by implementing the following measures:

- increased operational efficiency due to the implementation of programs to reduce production costs (creating a competitive environment in the area of procurement of work and services, cost of maintenance and overhaul projects optimization, etc.);
- centralized procurement (resulting in "economies of scale" from the purchase procedure);
- increased share of local equipment and locally-manufactured utilities (decreasing dependence on currency exchange rates).

At the current inflation rate, the impact of these risks on the Company is moderate with the medium risk probability.

8) Risks linked to possible fluctuations in the costs of IDGC of Centre services in foreign markets and their impact on the Company's activities and commitments under securities obligations

IDGC of Centre does not operate in the foreign market and does not have any plans to start, the volume of accessories and equipment purchased abroad is insignificant. Therefore, the above-mentioned risks cannot have a profound impact on the Company.

The risk of IDGC of Centre non-fulfilling its obligations to security holders (owners of common stock and exchange bonds) as caused by the changing industry conditions is minimal.

2. COUNTRY AND REGIONAL RISKS

Country risks

Currently the sovereign rating of the Russian Federation is "BBB+" (in the sovereign currency, as rated by Standard & Poor's), "BBB" (by Fitch) and "Baa1" (by Moody's), while the outlook is "stable".

Financial problems or stronger fear of investment risks in emerging economies have reduced the foreign investment influx to Russia, caused an outflow of foreign capital, and had an adverse impact on the Russian economy. Moreover, the Russian economy is particularly vulnerable to changing global prices for natural gas and oil. Consumer prices in the country are still a destabilizing factor. All these factors can reduce access of the IDGC of Centre to capital and have a detrimental effect on customers' purchasing power. The Russian Government is implementing the policy of containing the growth of tariff for products and services of natural monopolies, which can lead to the shortfall in funds for the Company's investment program. Moreover, in the mid-term some amendments will be made to the legislature in what relates to the measures to tackle the problem of cross-subsidization in the power industry.

Risks are assessed as high, with moderate to critical consequences for the Company's activities.

To minimize the risks mentioned above, the IDGC of Centre has been working hard to reduce internal costs, streamline the investment program and carry out a prudent borrowing policy.

Political risks are beyond the Company's control because of their scale, but the Company seeks to minimize them by active cooperation with superior and regulatory organizations to jointly affect the development of the industry.

Regional risks

IDGC of Centre operates in the Central Federal District of Russia, a well-developed region, the center of financial and political activity.

The 2012-2013 Investment Rating, which was compiled by the rating agency "Expert RA", assesses the investment potential of Russia's regions and regards 7 out of 11 regions where IDGC of Centre operates as regions with moderate investment risks and considerable investment opportunities, while the remaining four regions (the Belgorod, Voronezh, Lipetsk and Tambov regions) are rated as regions with minimal investment risks.

Major regional risks for IDGC of Centre generally include:

- failure of the state agencies in charge of tariff-setting to accept expenditure proposed by the Company as economically justified and integrate it into the tariff;
- reduced energy consumption by large regional plants and manufacturing facilities.

These circumstances may have a significant impact on the Company's major investment program, and there still is a strong probability of such developments. To reduce the influence of regional risks on the investment program, the Company cooperates with state agencies and other stakeholders to monitor and manage the stakeholders' investment decisions in what concerns the Company's investment policy. The Company also engages in optimizing the financing of the investment program by reducing internal costs.

A possible change of regional authorities along with the change of the existing model of cooperation is the key political risk to the Company on the regional level. The most obvious consequences for the Company in these cases are: low regional tariffs lacking economic justification, and absence of the regional authorities' support for the integration of IDGC of Centre into the municipal power grid.

Now the risk probability is assessed as very low, with the consequences for Company estimated as minor to moderate.

To minimize these risks, the Company is striving to cooperate with regional and local authorities in working out long-term development programs in the regions where the branches operate, and seeks the senior authorities' consent to settle its regional issues.

Risks from possible military conflicts, national and local emergencies and strikes in the regions where IDGC of Centre is a registered taxpayer and/or operates

The probability of conflicts and the state of emergency in the country or the regions where the Company operates is quite low. Should a military conflict arise, the Company is exposed to serious risks of forcing out of action of its major assets.

Risks related to the geography of the country and the region where IDGC of Centre is a registered taxpayer and/or operates, including higher risk of natural disasters, potential interruption of transportation due to remoteness and/or limited accessibility

The geography of the region in which the Company operates entails the risk of natural disasters in autumn and winter seasons (AWS). These risks are assessed as high. The Company makes a set of steps to prepare the grid for the AWS, with certificates of preparedness to AWS issued for each branch. Efforts are constantly made to speed up the relief operations after the disaster in autumn and winter.

Managers are to submit to the Board a report on the preparations for the autumn and winter, as well as a performance report after the AWS.

3. FINANCIAL RISKS

The Company activities may meet a shortage of investment funds or funds for business operations.

The most significant financial risk factors stem from the imperfections of the retail energy market and are listed in the Industry risks section. However, there are an additional number of risk factors that could affect the Company's financial and operating activities.

Inflationary risks

Inflation could hurt the Company's financial and economic performance through a drop in the real value of receivables, rising interest rates payable on loans, and higher construction costs under the investment program.

The current inflation will not have a significant impact on the Company's financial state. According to plans of the Central Bank of Russia to curb inflation, and to its forecast scenario indicators for the closest future, we may believe that inflation will not have a considerable effect on the Company's financial performance.

Currency risks

Any unwelcome fluctuations in the foreign currencies – ruble rate could affect the indicators of the Company's operating efficiency and investment effectiveness.

The Company is not highly susceptible to currency risks, because operations with its counteragents are carried out in Russian rubles only. Nonetheless, since the Company imports some goods and equipment, a considerable leap in the exchange rate could make imports more expensive. The Company is therefore seeking to replace imports with locally manufactured goods and to sign long-term contracts to preclude any rise in the cost of the acquired goods.

Interest rate risks

Changes in the Central Bank of Russia refinancing rate reflect the macroeconomic situation and affect the cost of using credit facilities. Growing borrowing costs could trigger unexpected increases in the cost of servicing the Company's debt.

In order to minimize the risk, the Company conducts a prudent borrowing policy aimed at building a balanced loan portfolio and minimizing the cost of servicing its debt.

Liquidity risks

The Company's activity is exposed to risks leading to the dry-up of its liquidity and undermining financial stability. Cross-subsidization among consumer groups and poor payment discipline in the retail energy market expose the Company to the most serious risks.

The state's tariff policy to curb the tariff rise for the public brings about increased cross-subsidization, mostly affecting large consumers that have signed last mile contracts. The shift of big industrial consumers to conclude direct agreements with FGC UES generates shortfalls in the Company's income.

Poor payment discipline of the contractors results in high accounts receivable, including overdue payments. The main factors affecting the payment discipline were the discrepancy in contracted capacity with retail companies, as well as the improper use of funds for electricity supply by the companies deprived of the SLR status.

The Company can be unable to meet financial and other conditions stipulated in loan agreements should these risk factors come into play. In order to reduce the probable risk of these developments, the Company regularly reviews its capital structure and determines the best terms of borrowing, working at the same time to improve the structure of its floating capital.

Influence of financial risks on financial statements

Changes in prices for electricity transmission, first of all, affect the total revenue of the Company and will have a significant impact on the net profit of the issuer.

Inflation, which results in the increasing price of materials used in production and raw materials, could have a crucial impact on the balance sheet total due to the rising accounts payable and decreasing accounts receivable.

It may as well have a substantial impact on the net profit of the issuer, as the issuers' capacity of raising power transmission price are limited by the annual state regulation, that is, the issuer cannot adjust them to the inflation level, while its costs, which are mainly denominated in rubles, directly depend on the inflation rate.

Of all the indicators of financial statements revenue, net income, the size of receivables and payables are subject to the most drastic changes should the risk events come.

4. COMPLIANCE RISKS

Compliance risks, particularly posed by ambiguities in tax legislation interpretations, could lead to incorrect tax calculation and tax payments with the relevant penalties imposed by the tax authorities. To reduce these risks, the methodology for accurate tax calculation is constantly reviewed and updated and its compliance with the working legislation is regularly checked.

Moreover, the Company runs the risk of legislation amendments and faults in legal paperwork and legal support. To minimize these risks, the Company's activities are subject to mandatory preliminary legal expertise.

The Company is also exposed to the risk of a shareholders' appeal of large transactions and of related party transactions (if such transactions were carried out without proper preliminary approval of the Board of Directors or the General Meeting of Shareholders, or approved with procedural breaches).

To minimize these risks, a mandatory preliminary legal analysis of transactions is carried out as part of the contractual work to identify the need for corporate procedures required by the working law and/or the Company's charter. If necessary, the transactions are submitted to the relevant Company authorities.

To minimize the risks associated with shareholders (in particular, the risk of "corporate blackmail" by shareholders, the risk of unwelcome actions on the part of shareholders which threaten general meetings of shareholders in future), the professional registrar LLC "Register-RN" keeps the register of shareholders. The Company carries out a range of measures aimed at improving information exchange with shareholders and at full compliance with the rights and interests of the latter (the disclosure of information in accordance with regulations, scheduled meetings with the company's shareholders to clarify relevant current issues, and compliance with corporate procedures and internal documents).

Given that IDGC of Centre does not operate abroad and does not intend to launch any operations outside the Russian Federation, there are no legal risks caused by the activity on the foreign markets.

Risks posed by changes in currency regulation

The Company's exposure to risks posed by changes in the currency legislation is minimal, since the Company does not intend to operate abroad, and foreign exchange transactions are insignificant and unable to seriously affect the activities.

Risks posed by changes in tax legislation

Tax regulations often have vague wording or include terms which are not clearly and legally defined. Moreover, the official clarifications exercised by Ministry of Finance and the Federal Tax Service of the Russian Federation occasionally fail to fully cover tax legislation.

Tax authorities are charged with establishing the rules and mechanisms for compiling and issuing tax statements. They are entitled to impose additional taxes and fees, to introduce the late payment charge, to impose significant penalties, which seriously increases tax risk probability. The Company complies fully with the tax legislation relevant to its operations. Therefore, this risk is assessed as insignificant.

If taxation schemes or terms are changed, the Company will integrate these changes in its financial and economic activities.

Risks posed by changes in customs regulations and duties

Changes in customs regulations and duties do pose no risks to the Company as the Company does not operate abroad and does not intend to launch any operations outside the Russian Federation.

Risks posed by changes in licensing requirements of the IDGC of Centre major activity or licensing rights to use the objects with a restricted circulation capacity (including natural resources)

The preparation of documents necessary for obtaining or renewing the license may take more time because of possible changes in licensing requirements, which can also create the need to comply with the new regulations. However, this risk should be considered insignificant, unless obtaining or renewing the license, or performing operations subject to licensing, demand the compliance with the excessively stringent requirements that the Company is unable to meet or that are too costly.

If licensing requirements change, the Company will take the necessary steps to obtain the appropriate licenses and permits.

Risks posed by changing legal practices related to the activities of IDGC of Centre (including licensing), which can adversely affect its performance and its claims in on-going litigation

Changes in legal procedures affecting the Company (including licensing issues) are unlikely and will not have a considerable impact on its operations.

If the changes in legal practices relate to the Company's major activity, the Company is resolved to plan its financial and economic processes accordingly.

5. RISKS LINKED TO THE ISSUER'S ACTIVITY

Risks posed by the Company's claims currently in litigation

In 2013 a number of regional retail companies operating in the service area of the IDGC of Centre, were deprived of the SLR status. The insolvency of those organizations caused both lenders and debtors themselves file bankruptcy petitions.

As a result, IDGC of Centre laid down the requirement to include retailers' debts in the list of creditors' claims. However, it is unlikely that the requirements of the Company in the insolvency process will be satisfied in full by the bankrupt's assets.

Risks posed by the inability to renew the issuer's license for a certain activity or use of objects with a restricted circulation capacity (including natural resources)

The Issuer assesses the risks posed by the inability to renew the issuer's license for a certain activity or use of objects with a restricted circulation capacity (including natural resources) as low.

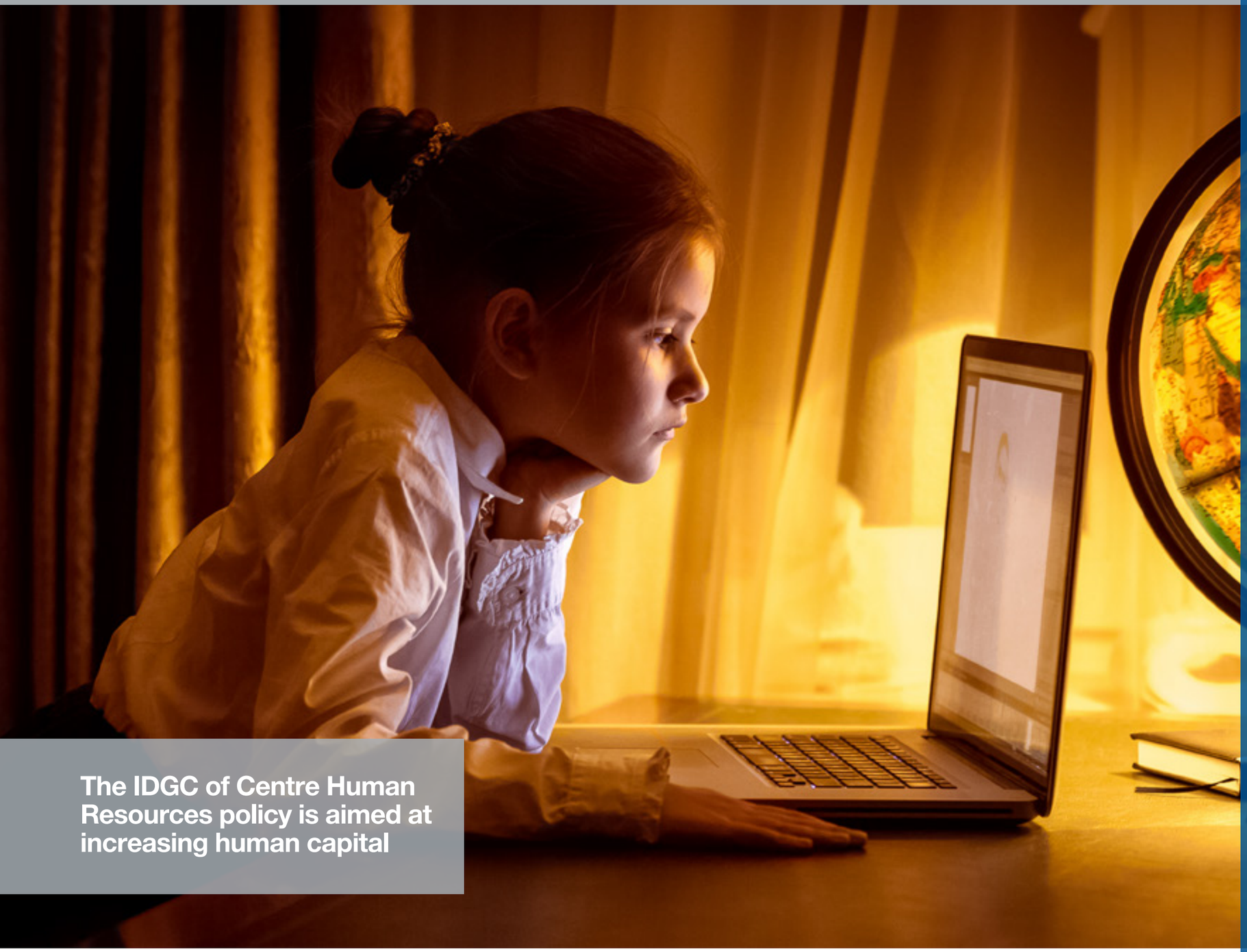
Risks posed by the issuer's liability for the debts of third parties, including the Issuer's subsidiaries are deemed as insignificant as the Issuer does not hold any debt obligations of third parties.

Risks posed by the potential loss of customers who account for at least 10 percent of the Issuer's total sales revenue (work, services)

Service contracts for power transmission are mandatory for grid operators. Therefore, there are no risks posed by the loss of customers who account for at least 10 percent of the total sales revenue (work, services).

There are no other risks posed by the activities of IDGC of Centre and specific to the Company to be included in this report.

SOCIAL RESPONSIBILITY



The IDGC of Centre Human Resources policy is aimed at increasing human capital

- Creation of a talent pool and recruitment of graduates, implementation of a comprehensive training system: over 41% of the employees received the necessary training in 2013.
- Implementation of a set of measures to ensure occupational safety of the employees and reduce the risk of third party injuries at the Company's facilities.
- Implementation of effective environmental policies with the purpose of increasing ecological safety level and minimising the negative impact on the environment.

Responsibility for the people we serve

We work primarily with large industrial corporations, major regional agricultural organizations and transport enterprises. Regional security, the stability and further growth of the regions where we operate depend on the Company's efficiency.

This is why we invest considerable effort to improve our services and ensure reliable power supply. Our aim is to serve people's interests, to protect the environment, act in the interests of our employees, shareholders and investors, and all the interested parties rather than merely to increase efficiency.

As part of its development strategy, IDGC of Centre aims to increase the effectiveness of its human capital. The company ensures increasing labor productivity, creates a pleasant corporate environment for the staff, and provides safe working conditions and labor protection.

In 2013 IDGC of Centre continued to invest in staff support and development as part of its health and safety plan, and environmental policy.

06

HUMAN RESOURCES

The Company improves the HR and social policy consistently and in a purposeful manner. The IDGC of Centre HR policy is aimed at increasing human capital, at creating a pleasant corporate environment to retain employees and train them, and at ensuring job safety and labor protection. The HR policy is predominantly aimed at forming a highly qualified team to achieve strategic objectives.

As a part of the Company's HR policy, the senior management seeks both to retain employees and increase human capital in the sphere of industrial operation, and to increase the personnel's professionalism and motivation to achieve corporate objectives. Talent-pool management aims to create a personnel reserve to deal with new management, financial, investment and other related issues.

Staff support and training in IDGC of Centre envisages a range of measures to preserve, replenish and develop the Company's personnel, including:

- Identifying a special group of workers who are vital for the company;
- Developing and implementing a number of measures for attracting younger staff, especially the staff of production departments (workers, specialists and engineers);
- Strengthening cooperation with leading Russian institutions of higher secondary and vocational education, including dedicated specialist training;
- Developing vocational education, training and retraining of the personnel to exploit the full potential of the Company's regional training centers and introducing flexible educational technologies;
- Improving the system of incentives, promoting social partnership;
- Developing a talent tool;
- Intensifying effort aimed at psychophysiological provision of safety of the operating personnel.

COMPOSITION AND STRUCTURE OF THE STAFF

The Company had 32 721 employees as of December 31, 2013. The average staffing number was up by 3.9% as compared with 31 091 employees in 2012.

Significant changes in the organizational structure of the branches account for the growing number of the employees in 2013. The major reason for the growth was the transfer the SLR functions to five branches of the Company in the reporting year.

As part of the transfer of the SLR functions, the Company retained the personnel of retail companies, with all the employees being provided with labor contracts presupposing full remuneration and employment conditions similar to the former contracts.

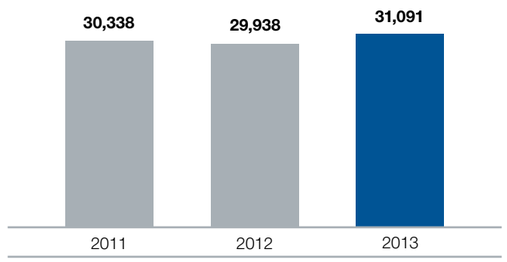
For details on the SLR functions of the Company, please see page 48 of the Annual report.

A significant increase in the number of employees in Belgorodenergo in September 2013 was due to the newly employed staff of the Contact Center of a service provider receiving and processing telephone calls from electricity consumers of 11 branches of IDGC of Centre.

The staffing level in 2013 was 95% as of the closing of the year. During the last three years, this figure did not deviate by more than one percent, which serves as an indicator of stability.

The category distribution of the staff did not experience any significant change. Workers constitute most of the Company's personnel, accounting for a 49 % share of the employees, the fact being conditioned by the nature of the activities of industrial companies of the distribution grid complex.

AVERAGE NUMBER OF EMPLOYEES IN 2011-2013, people:



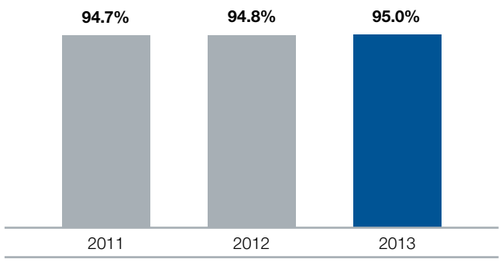
The average age of the employees in 2013 was under 41 (40.8 years). Over the past three years the ratio of different age groups had not changed significantly. Nevertheless, there were fewer employees under 25 years and more working pensioners (a 1 ppt. increase). It is caused by the newly acquired the SLR status of the five branches of IDGC of Centre and the need to keep the staff of the retail companies, which was integrated into the Company's personnel in full. The average age of the newly employed workers is much higher than the average age of workers of IDGC of Centre.

In 2013 the tendency was retained of hiring young specialists with university degrees or having completed a program of professional retraining. The educational level of the working personnel tends to be increasing as the Company employs more workers with one, two or more university degrees.

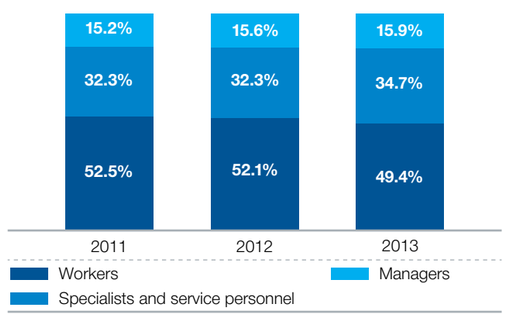
Today's drive towards application of cutting-age technologies in the field demands highly qualified personnel, ongoing professional development and training. The staff of IDGC of Centre has a high level of education.

The trend towards increasing human capital of IDGC of Centre is positive. The Company employs mostly young professionals and workers having the power-specialized education and training in the most active working age. The retiring workers and senior citizens quitting the job enjoy guarantee provisions of collective labor agreements and non-state pension schemes.

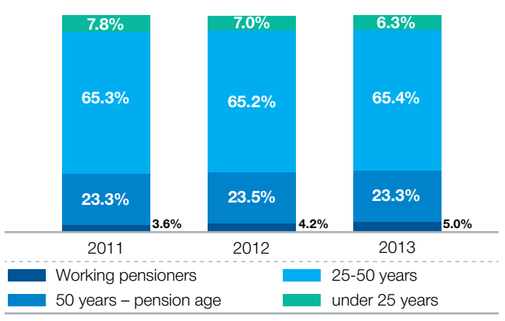
STAFFING LEVEL IN 2011-2013, %:



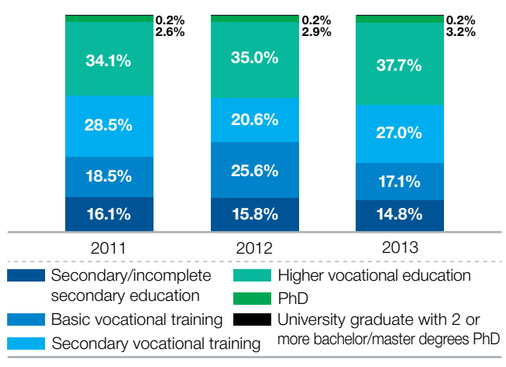
EMPLOYEE STRUCTURE BY CATEGORY IN 2011-2013, %:



EMPLOYEE STRUCTURE BY AGE IN 2011-2013, %:



EMPLOYEE STRUCTURE BY LEVEL OF EDUCATION IN 2011-2013, %:



PERSONNEL TRAINING AND DEVELOPMENT

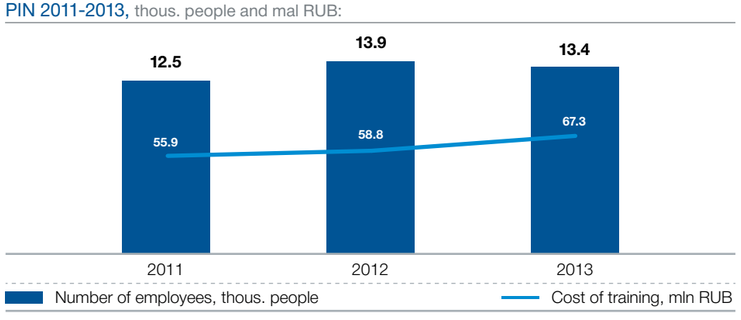
The development of a high-quality system of education, career development and professional training is one of the main tasks of IDGC of Centre.

The trainings held help the Company's employees to maintain skills in accordance with the requirements for technical and organizational development and create the conditions for professional and personal growth.

Personnel training and development follows the following criteria:
- the need to train the personnel to achieve production objectives;
- regularity of training;
- improvement of the quality of work and upgrading skills and safe working practices;
- the requirements and standards of work safety rules;
- systematical review and renovation of the employees' knowledge;
- results of the assessment and/or certification of the personnel;
- results of the analysis of incidents involving the personnel;
- the investigation of breakdowns and industrial accidents.

In 2013 13,402 people, or 41 % of the payroll employees, underwent various trainings. Training costs amounted to 67.3 million rubles.

NUMBER OF EMPLOYEES WHO RECEIVED TRAINING AND COSTS OF TRAINING PIN 2011-2013, thous. people and mal RUB:



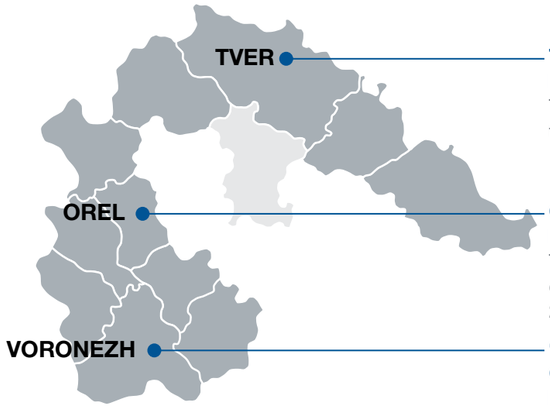
In 2013 the focus was on the training and educating workers in the areas monitored by Rostechnadzor and in the field of job security and safety. The staff training was conducted in several directions depending on the category of the employees taught. Priority was given to further training of employees of field control centers, meteorological departments and measurement-taking departments, of relay protection and automation departments, distribution network operators, maintenance electricians at transformer plants, electricians of field service crews, electricians at distribution networks.

Priority was given to training, retraining and advanced training of workers; mandatory training of personnel to allow them to fulfill their professional duties; professional development, training and retraining of managers and specialists. All kinds of training, subjects and curricula were aimed at the employees improving their performance. Special attention was paid to labor protection, safety skills and danger-free work practices.

In the analyzed period the employees were trained mostly in regional centers.

IDGC of Centre continues to develop in-company training using its own classrooms and training grounds. Classes are available in almost all the branches, being sufficiently technically equipped to hold classes. The classrooms allow holding a range of targeted trainings for a large number of branch employees, overcoming the lack of knowledge and practical skills.

TRAINING CENTERS OF IDGC OF CENTRE:



Tver Training Center Private Institution
Three thousand employees were trained there in 2013

Orlovsky Training Complex Private Educational Insitution
Three thousand two hundred employees were trained there in 2013

"Energetik", Voronezh Training Center Private Educational Insitution
Over a thousand employees were trained there in 2013

A positive side to such training is that the workers study local norms of IDGC of Centre and its branches (standards, instructions, regulations) as well as federal provisions.

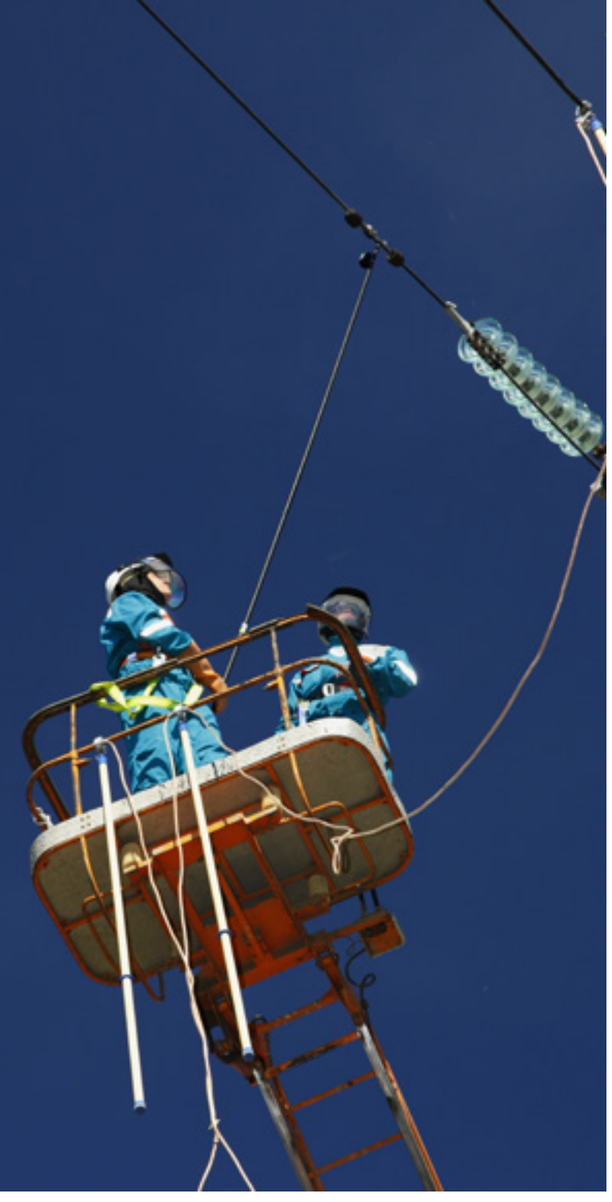
Highly skilled branch specialists with extensive field expertise hold training in the major areas the Company is involved in. The training is internal and Company specific. Third parties are not invited to attend.

In 2013, about 34% of the Company's employees participated in various forms of corporate training.

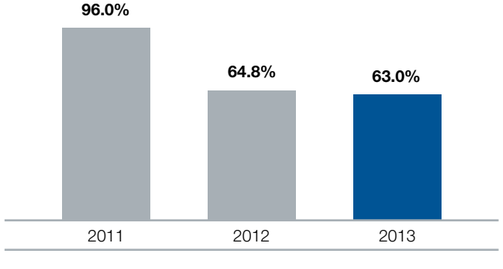
IDGC of Centre is the founder of three training centers licensed to conduct training activities; these are key educational institutions to meet the need in educating employees of the Company's branches in the respective regions.

During the year 2013 the main partners of the Company in the field of training and further education were the following academic facilities (apart from the Company's own training centers):
- Energetik and Expertenergo Training and Retraining Centers based on the following academic entity: MPEI National Research University "Moscow Power Engineering Institute", (the Smolensk branch), Federal State Budgetary Institution of Higher Professional Education.
- St. Petersburg Power Engineering Institute of Further Education (St. Petersburg).
- Institute for Further Education and Retraining of Ivanovo State Power Engineering University (Ivanovo).
- Non-profit partnership "Corporate Training and Scientific Center of the Unified Energy System" (Moscow).
- Academy of Standardization, Metrology and Certification.
- Kostroma Energy College Regional State-Funded Educational Institution of Vocational Education.
- Non-profit partnership "Stavropol Training Center" (Essentuki).
- Regional institutions of additional professional education.

In order to provide qualified personnel training, choice and development contracts of long-term cooperation are executed with a number of regional academic institutions of higher and secondary professional education. These include the Federal State Budgetary Institution of Higher Professional Education MPEI National Research University "Moscow Power Engineering Institute" in Smolensk, Smolensk Technological College Regional State-Funded Educational Institution of Vocational Education and Smolensk Polytechnic College Regional State-Funded Educational Institution of Vocational Education. The principal cooperation area is training electricians and technicians. The cooperation with MPEI National Research University "Moscow Power Engineering Institute" in Smolensk and with Smolensk Technological College Regional State-Funded Educational Institution of Vocational Education is particularly fruitful.



STAFFING LEVEL OF IDGC OF CENTRE MANAGEMENT IN 2013, %:



TALENT POOL

Establishing a talent pool and working with it is crucial for developing personnel potential in IDGC of Centre. The Company creates two kinds of personnel reserve: management and young specialist talent pools.

The management succession pool is designed to promptly provide highly qualified candidates to meet the Company's need for personnel in the following positions:

- Top management:
  - Deputies of General Director;
  - Heads of departments directly reporting to the General Director;
- Branch management:
  - Regional deputies of General Director in the branches;
  - Heads of departments directly reporting to the regional Directors in the branches;
  - Head and Chief Engineer of Distribution Zones.

IDGC of Centre has been creating and working with the management talent pool since 2010 in accordance with the Regulation on the talent pool[18].

The managerial talent pool includes highly skilled employees having developed leadership qualities, who are career-oriented and ready for in-company rotation. In 2013, the management talent pool for the executive office of IDGC of Centre and its branches comprised 2,558 people.

The lower indices for the branch and distribution zone management, constituting 64.8 % and 63.0 % respectively, is accounted for by the fact that retail departments having no talent pool built for them were incorporated into the structure of three branches.

In the reporting period 211 out of 471 appointments to senior positions in the executive office and the Company's branches were filled from the management talent pool.

The main goal of building the talent pool of young professionals is to engage young specialists in solving the current problems of the grid complex, to develop their professional skills, and to assist them in their career development. The talent pools of young professionals have been created in IDGC of Centre since 2011, for the whole Company as well as for its branches; they are managed in accordance with the Company Regulation on the talent pool of young specialists[19].

In 2013, 1,197 professionals formed the young personnel reserve of the Company, and 104 of them were promoted in the reporting period, with 94 of them receiving target positions.

18 Approved on October 27, 2008 by the General Director of IDGC of Centre, Order No. 248
19 Approved on August 12, 2011 by the General Director of IDGC of Centre, Order No. 224-CA

The preparation scheme for the candidates includes the development of managerial and professional skills of potential employees on a regular basis, and individual development plans have been worked out.

In addition to mandatory training programs, the talent pool members are offered some ways and methods of acquiring professional knowledge and skills development at no additional cost:

- Internship in the Executive Office of the Company or its branches that have considerable expertise and use the best management practices;
- Participation in projects on the innovative equipment installation;
- Engaging the candidates in the creative teams to address technical and organizational problems;
- Allowing the candidate to stand in for the employee (of the target position) to fulfill his/her duties;
- Engaging a candidate from the pool in preparing draft documents, manuals, reports;
- Engaging a candidate from the pool as tutors, course teachers and having them develop academic curricula and guidelines.

The Company has introduced a mandatory practice requiring that a candidate should step in for his supervisor and fulfill his/her duties while during his/her temporary absence (caused by an illness of the latter or during his/her vacation).

In 2013 candidates from the talent pool represented IDGC of Centre at the following industry events:

- The Second International Forum on Energy Efficiency and Conservation ENES 2013.
- All-Russian seminar "Preliminary results of tariff regulation in 2013 and issues to be dealt with by state regulation bodies for 2014."

THE FOUNDATIONS FOR WORK WITH YOUNG PROFESSIONALS

The Company pays special attention to working with young people - in the reporting year IDGC of Centre was cooperating proactively with educational institutions. The Councils on the Youth continued functioning.

The youth policy of IDGC of Centre facilitates adaptation and ensures professional growth of young professionals, allows them to develop their scientific, technical and creative potential. The Council on the Youth aims at promoting good morale and sound psychological atmosphere in the workplace, maintaining and developing the Company's corporate culture, and active engagement of the youth of IDGC of Centre in work and social life.

The current youth policy predominantly involves:

- Career guidance at schools;
- Cooperation with special professional educational institutions of higher, secondary and primary professional education in training, retraining and advanced training of specialists;
- Target-oriented training of young professionals at educational institutions;
- Pre-graduation training and internship;
- The Company's grants and scholarships to enhance the role of education, to attract the most talented and motivated young specialists in the energy sector, and to provide social support for gifted students.
- Individual appointments for newly graduated professionals, etc.

The Youth Council has developed a plan of activities in the following areas: scientific and technical activities, cooperation with educational institutions, activities to teach spiritual, moral and patriotic values, activities to preserve labor traditions of the society, cultural events, sports events, and interaction with regional youth organizations. 2013 was marked by the Company's various achievements in youth participation in scientific, cultural, and charitable events, creative and social contests, and sports competitions.

In 2013 young employees participated in the Forsage-2013 Innovations Forum for young engineers, The Fourth Youth Approach to Energy International scientific conference in Novocherkassk, and various research activities at the regional level. The participation of the young IDGC of Centre team in the events for young specialists at the Second International Forum on Energy Efficiency and Conservation ENES 2013 became a landmark event, where the team presented their project in power efficiency and conservation in the grid. The project was demonstrated to the Minister of Energy.

SOCIAL POLICY

IDGC of Centre strives to invest a lot of effort in providing social support for employees, their families, and the retired personnel, promoting a healthy lifestyle and developing corporate culture. The Company is committed to maintaining and improving health of their employees, it organizes sports and recreation events.

The Company conducts its social policy through the development of social partnerships scheme based on the Collective Labor Agreement of IDGC of Centre.

The employees' interests are represented by the IDGC of Centre Trade union, which encompasses the trade unions of the 11 branches.

The unified Collective Labor Agreement of IDGC of Centre regulates labor relations and outlines the rights and responsibilities of parties to the social partnership, payment rates and other labor conditions, alongside with social protection and benefits for the employees. The Company provides many of the benefits and compensation packages in cooperation with the Trade union.

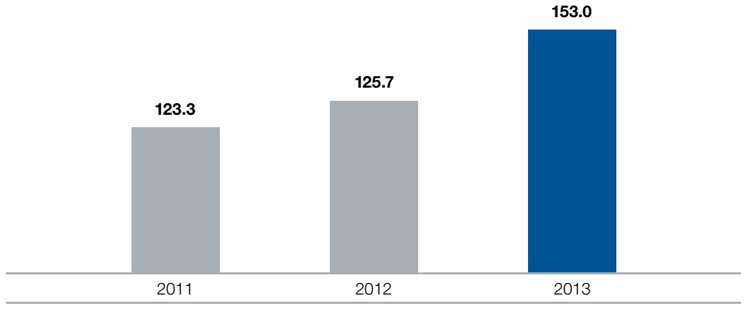
Under the Collective Labor Agreement and corporate Insurance Program, all Company employees receive health insurance according to the voluntary health insurance programs (hereinafter – VHI), alongside with accident and sickness insurance.

Insurance premium under VHI contracts exceeded 150 million rubles in 2013. The Company also helped its employees to get policies of obligatory health insurance.

Under the VHI contracts all the insured employees were offered a wide range of free medical services, including various kinds of medical checkups, ambulatory care, and hospital treatment.

Besides, the employees were vaccinated against the flu in 2013.

COSTS OF VOLUNTARY MEDICAL INSURANCE OF THE EMPLOYEES IN 2011-2013, mln RUB:

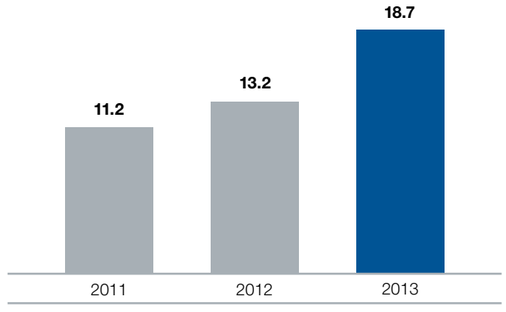


IDGC of Centre supports not only its personnel, but also its retirees. In 2013 expenses on financial assistance to the retired personnel and the disabled personnel amounted to 52,741 thousand rubles.

In order to support the Company's employees who are taking their well-deserved rest, and to secure the corporate pension system, the Company offers a Private Pension Scheme to its employees, reaffirmed annually by the Board of Directors.

The Private Pension Scheme (hereinafter – PPS) is implemented under the agreements concluded with the industrial Power Industry Private Pension Fund on parity and corporate conditions.

EXPENSES FOR IMPROVING THE EMPLOYEES' LIVING CONDITIONS IN 2011-2013, mln RUB:



The PPS facilitates the resolution of HR issues associated with attracting, retaining and motivating staff to work effectively, and creates favorable conditions for making retirement savings.

The PPS scheme for the IDGC of Centre employees is implemented through the Power Industry Private Pension Fund.

Each branch of IDGC of Centre has the Veterans' council that serves as a link between retirees and branch management, helps to identify retirees in dire need, and cooperates with the branch management to organize corporate events.

The Company has the Regulation on Corporate Assistance and Support adopted by the Board of Directors, which is aimed at improving the employees' living conditions. This Regulation is designed to provide social security for employees, to retain qualified specialists and to attract young highly-qualified professionals; it aims to provide incentives for employees to increase their productivity. Apart from that, the Company's branches have housing commissions. In 2013, IDGC of Centre compensated for the rent of accommodation for young and highly skilled workers and provided part of the mortgage interest for employees engaged in mortgage contracts.

IDGC of Centre follows a system of incentives for achieving outstanding results, conducting innovation projects, and for the diligent loyalty to the Company over a long period of time.

In 2013 6 employees of the Company received national awards, another 129 received awards from the Ministry of Energy, yet another 185 received corporate awards from JSC Russian Grids; 55 employees were awarded by the All-Russian Association of Employers of the Power Sector, and 580 employees were awarded by IDGC of Centre. One company employee was awarded by placing his name on the JSC IDGC Holding honor board, and 15 more were listed in the Honor Book of the Company.

The Company pays special attention to sports and recreation activities. Sports policies of IDGC of Centre are welcomed by the employees, are covered in the media and aim at preserving the Company's favourable image.

Thus, the branch employees regularly take part in Summer and Winter Games, and in the so-called "Merry Ready-Steady-Go" Games ("Veselyie Starty") to engage the workers' families in sports activities. In April 2013 the team of IDGC of Centre participated in the first Winter Games for the employees of the national power grid, which were held in Sochi in early April, and came first out of 24 teams.

In 2013 the Strategic teambuilding in IDGC of Centre 2013 corporate training was held in the recreation and holiday center "Klyazma" belonging to the Administrative Department of the President of the Russian Federation to improve the efficiency of business communication at various levels, to foster and strengthen corporate culture, to create an effective working team, to develop sports and recreation activities and to cherish sports traditions of the Company. The teams from the branches of the Company participated in various business games and competed in seven sports to determine the strongest team of the Company.

In order to develop corporate sports, promote teambuilding, and to give employees of the oil-and-energy sector an opportunity for informal socializing, the Company's employees participated in the following events: the Fourth Energy Cup mini-football competition in September 2013, the Energy Cup annual volleyball competition in November 2013. The best chess players of the Company participated in the Third Open Chess Tournament in the power sector held to commemorate M. Botvinnik.

The Company also provides its employees with trips to spa resorts, recreation centers, children's camps and children's resorts. The company strives to make the best of the expertise and intellectual potential of the retirees in the production and encourages tutoring; it organizes cultural and social events involving the former employees.

The Company and the Councils of Veterans organize various festivities, celebrations of holidays and anniversaries and festal dinners. Particularly important is the tradition of participating in the festivities dedicated to the Victory Day on May 9, such as the Victory Banner Relay Race, held in 11 branches of IDGC of Centre. During the Woodland Power event, retirees from all branches planted trees and took care of the forests planted in their areas along with young employees.

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety is one of the key priorities of IDGC of Centre HR policies.

The Company pays a lot of attention to preventing injury risks at work. A program focused on intensified measures against injury was developed and adopted by the Board of Directors (IDGC of Centre Low Injury Risk Program) for 2013, and it presupposes a system of measures to be taken. The Program includes:

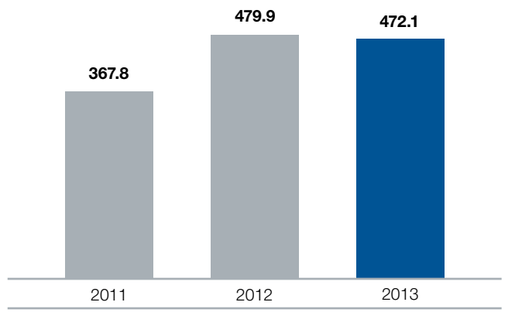
- Improving health and safety system management.
- Improving internal technical inspections.
- Organizing accident prevention, which includes:
  - Working at modular structures of 35-110 kV substations.
  - Measures to prevent electricity-inflicted traumas during emergency operation.
  - Using personal protective equipment.
  - Motivation, staff incentives, improving HR work.
  - Developing cooperation with specialized educational institutions.
  - Improvement of operational and technological management.
  - Providing safe transport conditions.
  - Specialized training.
  - Workplace inspections

The Company also seeks to reduce injury risk for outsiders present at the sites. The 2013 program to reduce injury risk to third parties present at the "IDGC of Centre" facilities was approved by the Board of Directors. The program stipulates for the following steps:

- Monitoring electric facilities to keep them safe.
- Raising public awareness.
- Ensuring safe performance of the contractors

In order to comply with the current Russian labor legislation and the Regulation On the Occupational Health and Management System, the Company held medical checkups of the staff. Records are kept of those employed in hazardous, dangerous and difficult working conditions. Records are based on the results on the certification of working conditions at workplaces. In compliance with the Russian Federation labor legislation and Collective Labor Agreement, a number of employee categories are provided with additional compensations: additional day-offs and holidays, free milk and similar products according to the established norms.

CHANGE IN LABOR SAFETY COSTS IN 2011-2013, mln RUB:



Prevent electricity-inflicted traumas at energy facilities

In 2013, in order to prevent accidents at the IDGC of Centre facilities, we informed the public through the media, including radio and television, of the danger of approaching power transmission parts of electrical installations and of intrusion into them, and of the prohibition of breaking the rules applied to power grids.

The Company placed over 1.2 thousand publications in its printed press, over 1 thousand video clips and TV programs on power safety were broadcast. Social advertisements were displayed on trolleybuses and buses to prevent electricity-inflicted traumas.

Printed guidelines on safety during the loading and unloading operations in the protected areas of power lines were dispatched to the traffic police, who are responsible for the state registration of special-purpose vehicles, and to the departments carrying out vehicle checkups and instrumental control.

Besides, during the reporting year the Company's employees checked the state of protected zones in the branches. As part of the implementation of joint programs of IDGC of Centre and local authorities, energy departments and the utility sector, buildings and other objects illegally constructed in the protected zones without the consent of the owners of transmission lines are removed to prevent injuries at the facilities of IDGC of Centre's branches.

Special attention is paid to the prevention of electrical injuries to children.

The Company's specialists designed books, coloring books, bookmarks, printouts of timetables and other products. Additional hazard warning signs are fixed on the power installations in the populated areas and near childcare institutions. Measures are taken to remove power equipment from school premises, playgrounds, densely populated areas, to replace dangerous sections of overhead lines of bare wire with cables and overhead lines with insulated wires with steel insulated wires and self-supporting insulated wire of 6-35kV.

The distribution grid operators invite senior school students and younger pupils to visit the sites. To prevent children's electrical injuries, the branches together with regional educational boards give special classes in preschool, secondary and specialized secondary educational institutions. During the so-called Electrical Safety Weeks the Company's branches organized several presentations of the book "Energyland" in regional and district libraries.

The presentation of the book in Belgorodenergo gave start to the Electrical Safety for Kids regional action. Tverenergo sent all the books (over 1000 copies) to the Department of Education and to the distribution zones to be given over to schools in the city and in the districts.

The Company also published a new manual titled "Materials and guidelines for lessons on electrical safety". This manual is intended to help teachers of life safety principles to give lessons on electrical safety as part of the Life Safety course. The materials were provided by Edward Anpilov, engineer of industrial control and safety department of Belgorodenergo.

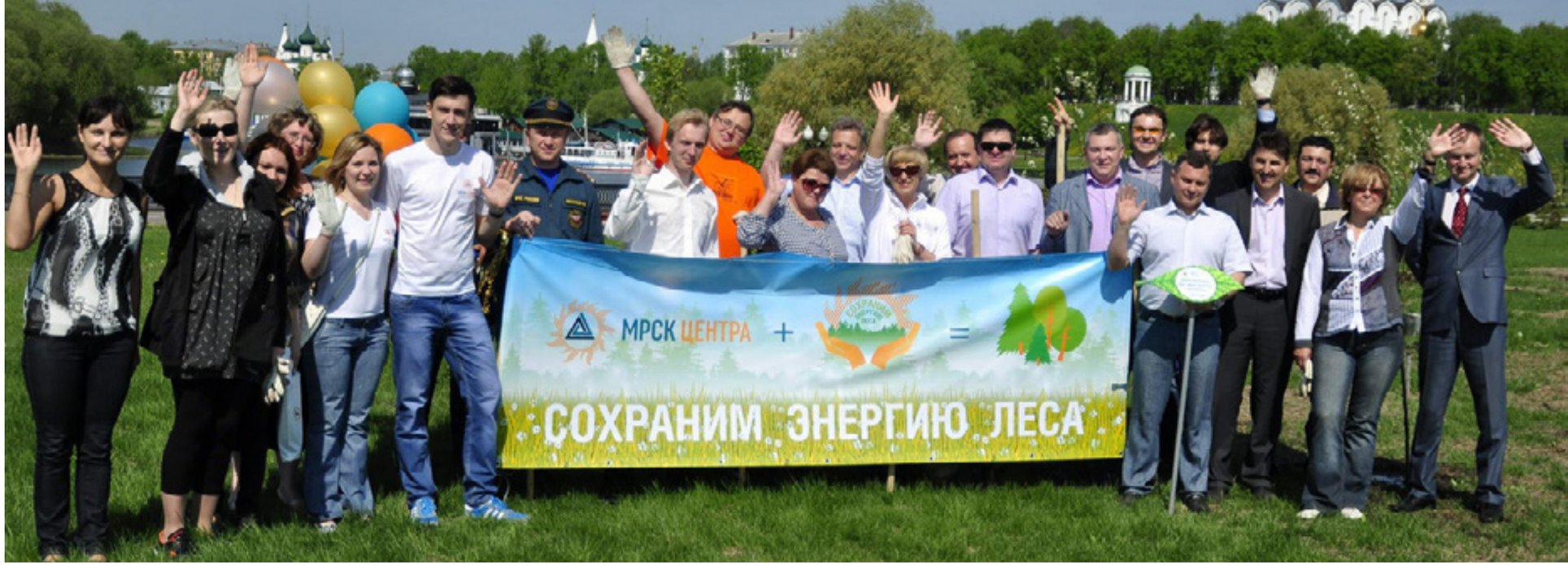
In compliance with the Rules of HR Management in the Power Energy Sector of the Russian Federation, approved by the Ministry of Energy of Russia on February 19, 2000, Order No. 49, new employees preparing to work in hazardous or dangerous conditions undergo training on safety work procedures. Current employees complete periodic refresher courses on labor safety and several employee categories are tested on labor safety knowledge.

In 2013, IDGC of Centre organized first aid training for workplace accidents and training for CPR instructors. The Company also financed mandatory training and certification of the employees stipulated by Acts on labor safety and industrial security.

Labor safety spending of IDGC of Centre totalled 472.1 mln RUB in 2013. The financing was used to provide the employees with new safety means and equipment to reduce the injury risk at work. The Company plans to maintain high standards of occupational safety and health of its employees.

02

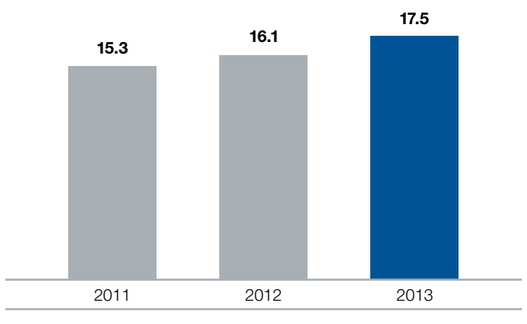
ENVIRONMENTAL POLICY



Being a socially responsible company, IDGC of Centre gives a major attention to environmental security. The company provides reliable, environmentally friendly power transmission and distribution, and practices an integrated approach to natural resource management.

Environmental policy is conducted in compliance with the Program of Implementing Environmental Policy in 2013 approved by the Company's Board of Directors. The program encompasses measures of significant ecological impact and aims at minimizing the negative effect of the Company's activities on the environment.

CHANGE IN ENVIRONMENTAL PROTECTION COSTS IN 2011-2013, mln RUB:



IN 2013, THE PLANNED EVENTS OF THE PROGRAM OF IMPLEMENTING ENVIRONMENTAL POLICY WERE CARRIED OUT IN ACCORDANCE WITH THE AMOUNT OF THE PROGRAMS FINANCING, AND COMPRISED THE FOLLOWING AREAS:

Air protection

We control the toxicity of vehicle emissions to prevent it from exceeding the maximum permissible emissions (MPE) limits. If needed, we adjust and replace automobile fuel systems; conduct regular tests in the safety zone, green up and landscape the territories. We also conduct regular sensor monitoring of our complying with the norms associated with the MPE limit.

Sustainable use and protection of water resources

We take laboratory samples of ground water and wastewater to check its microbiological, radiological, and chemical makeup, carry out the cleaning of sewage wells and networks, and take periodical water samples from artesian wells (for laboratory analysis). Moreover, we engage specialized organizations to collect and clean wastewater.

Land conservation and efficient land use

We take measures to reduce harmful effect on the soil: the Company builds temporary storage (depositing) facilities for oil-filled equipment, used oils, scrap metal, and wooden poles.

Waste processing

We set up separate waste storage areas for various danger classes of waste at production sites in special containers. We determine the makeup of waste and its danger class and monitor compliance with MPE and MPD regulations at waste deposition sites. We track the accumulation of highly hazardous materials, such as mercury-filled lamps, and set up areas to receive waste. We mark containers and sign agreements for the waste to be sent to special organizations for consequent processing, recycling, or burial.

Wildlife protection

To protect the territories against the intrusion of animals we equipped a number of substations with special concrete fences around our substations and installed rodent repellers in 2013.

3.5 thousand birdscarers were installed at the overhead power transmission lines of 35-110 kV to protect birds from being affected by electric current.

ENVIRONMENTAL AUDIT

Annually IDGC of Centre conducts the internal environmental audit of the branches, which involves estimating the compliance with the environmental legislation of the Russian Federation and evaluating the implementation of the Company's environmental policy.

The environmental audit implies check-up of environmental protection documents, examination of various logbooks and contract work. The territory of production departments and their sanitation are examined. Auditors identify the main directions of activities of the branch to reduce the negative impact on the environment, assess the progress in achieving the objectives set and the environmental performance.

Upon the audit completion the auditors issue a conclusion and activities are designed to eliminate the violations detected.

Technical steps to support the Program of Implementing the Environmental Policy

In 2013 we carried out the maintenance and repair of the substation equipment, replacing oil switches with vacuum and SF circuit-breakers, overhauling oil-switches and oil equipment at transformer plants, repairing drainage devices, replacing oil-filled bushings for bushings with solid insulation, using self-supported insulated wire, writing off old vehicles and acquiring new ones.

Equipment containing harmful substance of PCBs was written off and dismantled as part of the technical protection measures. PCBs, i.e. polychlorinated biphenyls, are a group of highly dangerous compounds posing a serious threat to man and the environment. In the recent years considerable efforts have been made to control their permissible levels locally and globally. PCB flows are regulated in particular by the Protocol on Persistent Organic Pollutants (POPs) to the 1979 Convention on Long-range Transboundary Air Pollution and the Stockholm Convention on POPs.

PCBs are on the list of the twelve POPs that must be prohibited for use, their production must be stopped, and all stocks must be destroyed. In 2013, IDGC of Centre recycled the 112.26 tons of PCBs.

Replacing oil switches with vacuum circuit-breakers

Unlike oil switches, vacuum circuit-breakers are highly reliable, have better fire safety properties, and are environmentally friendly. The number of vacuum circuit-breakers in use increases each year: in 2013 we replaced 37 oil switches with 35 kV SF circuit-breakers and 504 oil switches with 10 kV vacuum circuit-breakers.

IN 2014 IDGC OF CENTRE WILL AIM AT:

- Introducing new environmentally friendly technologies, materials and equipment, and new working procedures designed as a part of the Company's technical and environmental policy.
- Carrying out ecological measures planned for 2014 under the ecological policy implementation program for 2014-2018.
- Conducting environmental audit.
- Industrial ecological control.
- Timely obtaining of the necessary ecological approvals.
- Meeting all the conditions of using underground resources stipulated in the license.
- Timely delivery of hazard class I-5 waste for utilization and burial.
- Monitoring compliance with the requirements of temporary accumulation of production waste and consumption residue.
- Taking technical measures to prevent the death of birds along overhead power lines.
- Taking measures to prevent soil contamination with oil products.
- Waste management and environmental safety when handling equipment and waste containing PCBs.

PUBLIC RELATIONS

30 thous. releases

mentioning IDGC of Centre during 2013

37

congress and exhibition events which were attended by IDGC of Centre in 2013

IDGC of Centre maintains a public presence, adhering to the principles of openness and transparency and providing timely, reliable information.

The priorities in the information policy are:

- A unified internal and public information policy.
- The development of integrated communication.

Our public relations activities predominantly focus on interacting with the representatives of the mass media, federal and regional governmental bodies, social organizations, and members of the business and professional community.

In the reporting year, IDGC of Centre conducted the following PR campaigns as part of its efforts to minimize image risks: providing information on the preparation for the autumn and winter season, data on improving power efficiency, information on preventative measures to avoid third-party injuries at the grid facilities, and facts involved in developing the IT infrastructure.

Special effort was applied to making public the long-term program of modernization and reconstruction of the IDGC of Centre grid complex; its more reliable power supply, introduction of innovations and improvement of the Company's business processes; attention was drawn to the developed remote control services and complex customer service system, to the expansion of the range of additional services, and implementation of the power efficiency and power saving programs.

As part of its interaction with federal, regional, and municipal authorities in 2013, IDGC of Centre took part in the work of the regional headquarters set up by state agencies in order to ensure safety of the power supply and the effective functioning of the grid complex.

While following the program of grid connection in the regions of the Russian Federation that are the Company's service areas, IDGC of Centre consistently worked with regional authorities and non-governmental organizations to fulfill the provisions of agreements on informational interaction.

2013 saw the continuation of cooperation with the press centers of federal and regional authorities of the Russian Federation to provide information for publicly important events.

To improve the Company's customer service and develop a feedback system, the corporate website of IDGC of Centre operates the Internet Reception that receives customers' requests to be considered by the Company's specialists, who offer solutions for the problems presented by the customers.

In 2013 the information on the work of IDGC of Centre was delivered to the target audience through the federal media and the Central Federal District media.

The media gave the broadest coverage to:

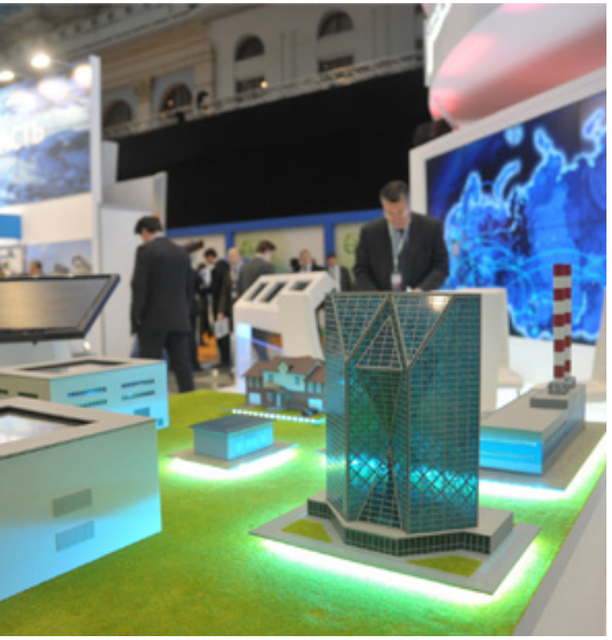
- IDGC of Centre industrial operations.
- Innovative technologies.
- Implementation of the repair program.
- Commissioning of large-scale power facilities.
- ROWs clearing program execution.
- Grid connection of consumers.
- Preparation for and operation through the autumn and winter season.
- Programs to improve power efficiency and power conservation.
- Health and safety programs, and prevention of third-party electrical injuries.
- Corporate events.
- Staff professional training.
- Development of talent pool.

Some 30 thousand releases mentioning either IDGC of Centre or its branches were published in the federal and regional mass media in 2013. The wide coverage area of the printed media and their social and business targeting facilitated bringing the information of the various activities of the Company to all key target audiences.

To promote the positive image of the Company, IDGC of Centre experts took part in 25 central and 12 regional congress and exhibition events in 2013.

SCHEDULE OF MAJOR CONGRESS AND EXHIBITION EVENTS IN 2013 THAT IDGC OF CENTRE PARTICIPATED:

Month	Event
MARCH	IDGC of Centre took part in the Cabex International specialized exhibition that displayed all the cutting-age domestic and foreign technologies in the cable industry
APRIL	The Company participated in the Moscow International Energy Forum “Russia’s Fuel and Energy Complex in the 21st century”.
	International Forum “High-tech solutions for the 21st century” was held
JUNE	The Company management took part in the St. Petersburg International Energy Forum
OCTOBER	The company took part in the Corporate Day organized by the Innovation and R&D Directors Club (iR&Dclub) as part of the Business of Innovation Technologies startup competition.
	The company attended the UPGrid International Energy Forum subtitled “Power Grid Complex. Innovation. Development.”
	IDGC of Centre participated in the IV Yaroslavl Energy Forum that addressed the most promising ways of the development of the industry, the introduction of power efficient technologies, and possible innovations in the development of the grid complex in the conditions of enforced low electricity tariffs
NOVEMBER	IDGC of Centre presented its energy conservation know-how at the ENES 2013 International Forum



The participation of IDGC of Centre in the ENES-2013 International Forum on Energy Efficiency and Energy Saving held in Moscow became the central event of the reporting year. The Forum gave IDGC of Centre an opportunity to present its innovations and advanced technologies employed by the Company specialists, and to display the implemented projects on power conservation and improving power efficiency.

The Yaroslavl Energy Forum was one of the most important regional congress and exhibition events for the Company in 2013. At the Forum IDGC of Centre presented its innovative know-how in the area of installing the street lighting systems using advanced equipment and of introducing automated commercial power metering systems featuring smart metering devices.

Apart from these events, the Company’s experts participated in the Voronezh Industrial Forum, the Bryansk Investment Forum, the “Energy and Electrical Engineering. Housing Services and Utilities” Interregional Specialized Exhibition, and the Specialized Interregional Exhibition entitled “Modern City. Building Industry. Power Engineering. Resource conservation. Ecology”.

04

ANTI-CORRUPTION INITIATIVES

The Company’s management provides full compliance with the anti-corruption laws existing in Russia in the course of its activities and controls the execution of the Company’s anti-corruption policy by the Company’s employees.

Under this initiative the Board of Directors approved the IDGC of Centre Code of Conduct in February 2013, which sets out the basic ethical principles and the principles of the employee’s corporate conduct, the guidelines for the interaction with stakeholders; it also dwells on the procedures to avoid conflicts of interest. A Corporate Ethics Commission began its work in accordance with the requirements of the Code, which regulates the fulfillment of the norms of corporate ethics and settles the conflicts of interest.

For more information on the Code of Conduct please visit our corporate website at http://www.mrsk-1.com/common/upload/docs/Code_of_Conduct_english.pdf

In 2013 the Company created a new department, the Department of Corporate and Anti-Corruption Compliance Procedures, whose main objectives are to develop and implement a range of measures to minimize the Company’s risk of corrupt practices.

The Department monitors the use of insider information, works to disclose the owners of the Company’s contractor organizations, verifies the information about the property, income and real estate liabilities of the candidates and employees of the Company and its affiliates.

IDGC of Centre Hotline was launched in the reporting year: +7 (495) 747-92-99, doverie@mrsk-1.ru.

In early 2014, the Board of Directors approved the IDGC of Centre Anticorruption Policy. The document’s main intention is to develop and implement a coherent system for corporate and anti-corruption compliance procedures aimed at preventing, detecting and eliminating corruption and at minimizing reputational and corruption risks for the Company.

For more information on the document please see our corporate website at http://www.mrsk-1.com/common/upload/docs/Anti_corruption_policy_of_IDGC_of_Centre.pdf.

PROCUREMENT

More than 98% of competitive tendering is carried out by means of E-commerce

IDGC of Centre procurement is regulated by Federal Law No. 223-FZ On Procurement of Goods, Work and Services by Certain Types of Legal Entities dd. July 18, 201, and the Regulation on Procurement of Goods, Work and Services for the “IDGC of Centre” Needs, approved by the Board of Directors (Minutes dd. June 13, 2013 No. 15/13).

For more information on the document please see our corporate website at http://www.mrsk-1.com/common/upload/docs/Appendix_13_Regulation_on_purchase_of_IDGC_of_Centre.pdf.

Every year the Board of Directors approves the procurement plan for IDGC of Centre for the next year, which is designed to meet the needs of the Company and is subject to the limitations placed by the IDGC of Centre key performance indicators.

This KPI cuts costs of the procurement of goods (work, services) by no less than 10% annually per unit of production within the three year period in real terms as of the prices in 2010.

For more information on KPIs and target indicators please see the Annual Report, page 41.

In 2013, the Company declared about 5,500 trade and procurement projects with a total of 32.9 billion rubles including VAT with announcement of results of competition for the reporting period. The actual cost totaled 30.6 billion rubles including VAT. Thus, the Company saved 2.3 billion rubles, or 7 %, on the procurement.

THE COMPANY BASES ITS PROCUREMENT ON THE FOLLOWING PRINCIPLES:

PROCUREMENT PRINCIPLES

TRANSPARENCY

- Maximal transparency of procurement through electronic trading platforms.
- Disclosing exhaustive information on the official web site and the Company’s web site

COMPETITION

- Creating a competitive environment through increased opportunities for individuals and legal entities during procurement.
- Estimating all procurement competitors on equal terms, applying the same set of criteria

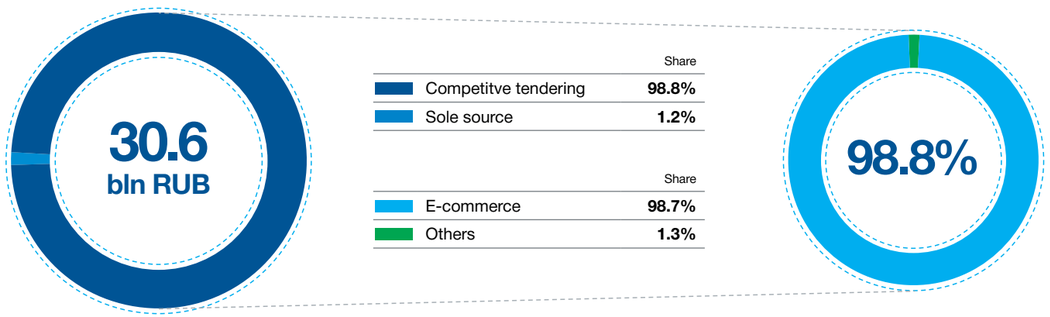
EFFICIENCY

- Maximizing the benefit for the Company while procuring goods, work and services of the sufficient quality and in the required quantities

EXPEDIENCY

- Creating the conditions for satisfying all the demands fully and on time to ensure the trouble-free execution of the Company’s functions

PROCUREMENT STRUCTURE IN 2013:



PROCUREMENT PROCEDURES IN IDGC OF CENTRE AND THE CONDITIONS OF THEIR IMPLEMENTATION:

Methods of procurement (from the preferable one to the least preferred)	Conditions	Type
Open tendering	The preferable procurement method. Choice of another procurement method is possible under the direct provisions of Regulation*	Open and close
Auction	Procurement method for readily available goods with specification clearly and fully defined by the purchasor in the form of technical requirements. The Central procurement body of the Company is entitled to decide which goods should be procured based on the results of an auction	Submitted electronically or in a hard copy
Request for proposals	› There is no time for a tender or it is not feasible for other solid reasons, whereas conditions requiring procurement from a sole vendor (contractor, provider) are absent , but the complexity of products needed prevent s the use of an auction or requests for quotations. › The negotiating process is needed, but a two- stage or multi-stage tendering is unfeasible for reasons of time or other serious reasons. › The expected purchase amount does not exceed 10 mln RUB including VAT. › Procurement of design and exploration works of erecting, retrofitting, and overhaul of the power grid units needed for grid connection is being carried out. › Procurement of design works for power grid facilities worthy up to 100 mln RUB with VAT is being carried out	With or without rebidding
Requests for quotations	For readily available simple goods, the only available critertion is the price, the request for quotation is made if the contract value of an open quotation request does not exceed 5 mln. RUB including VAT and there is no time to hold an auction	With or without prequalification
Competitive dialogue, contract negotiations	Competitive dialogue is resorted to for complex procurement which requires the negotiating process, but the two-stage tendering or the request for proposals is unfeasible for time reasons or for other reasons	With or without an opportunity to submit an alternative proposal
Simple procurement	› The purchase value is 100,000-500,000 RUB including VAT. › There is a set of clearly defined technical specifications for the goods, clearly defined requirements are set for the services and work in the form of a scope statement. › The existence of compelling urgency prevents the use of other procurement methods	One-stage, two-stage or multi-stage procedure
Minor procurement	› The purchase value is up to 100,000 RUB including VAT. › There is a set of clearly defined technical specifications for the goods, clearly defined requirements are set for the services and work in the form of a scope statement. › Compelling urgency prevents the use of other procurement methods	With or without postqualification
Single-source and sole-source procurement of goods (works, services)	› Procurement of unique goods (works, services) from the single supplier (provider, contractor). › Procurement from one supplier (provider, contractor) to prevent an emergency or eliminate its consequences. › Procurement from one supplier (provider, contractor) of goods (works, services) with fixed costs	Special procedures of procuring complex goods

* Regulation on procurement of IDGC of Centre

FOR REFERENCE

FULL NAME	**Joint Stock Company “Interregional Distribution Grid Company of Centre”**
SHORT NAME	IDGC of Centre, JSC
LOCATION, POSTAL ADDRESS	Bldg.4, 2-nd Yamskaya St., Moscow 127018, Russia
PRIMARY STATE REGISTRATION NUMBER	1046900099498 dd. December 17, 2004
CONTACT NUMBER FOR SHAREHOLDERS AND CUSTOMERS	8-800-50-50-115
HOTLINE	+7(495) 747-92-99, doverie@mrsk-1.ru
CONTACT DETAILS	Tel: (495) 747-92-92 Fax: (495) 747-92-95
EMAIL	posta@mrsk-1.ru
WEB SITE	www.mrsk-1.com
CONTACT PERSON FOR SHAREHOLDERS AND INVESTORS	Sergey Ternikov, Head of IR Division Tel: +7(495) 747-92-92, ext. 3334 Email: Ternikov.SA@mrsk-1.ru
CORPORATE SECRETARY	Andrey Alexandrovich Varlamov, Deputy Head of the Department for Corporate Relations Tel: +7(495) 747-92-92, ext. 3538 Email: Varlamov.AA@mrsk-1.ru
BANK INFORMATION	Taxpayer’s ID/Tax Registration Reason Code 6901067107/997450001 Settlement account: 40702810000000019885 with OJSC JSCB Rosbank BIC: 044525256 Correspondent account: 30101810000000000256 or Settlement account: 40702810300000004749 with Gazprombank (Joint Stock Company) BIC: 044525823 Correspondent account: 30101810200000000823
AUDITOR OF ACCOUNTING STATEMENTS IN ACCORDANCE WITH RAS FOR 2013 AND IFRS FOR 2013 INCLUDED INTO THE ANNUAL REPORT	CJSC KPMG Address: 31th floor, Block C, Bldg.10, Presnenskaya Embankment, Moscow, 123317, Russia Tel. +7(495) 937-44-77, fax +7(495) 937-44-00/99 Web site: www.kpmg.ru Email: moscow@kpmg.ru
REGISTRAR	Limited liability company Reestr-RN (LLC Reestr-RN) Registered address: bldg. 3-42/6 Podkopayevsky Lane, Moscow, 109028 Address: PO Box 4, 115172, Moscow Tel. +7 (495) 411-79-11; fax +7 (495) 411-83-12 Web site: www.reestrrn.ru Email: support@reestrrn.ru Register keeping license N910-000-1-00330, issued December 16, 2004 by FSCM, w/o expiry date

LIST OF ABBREVIATIONS

AMI	Automated commercial electricity metering system
AMR	Automatic meter reading system
BD	Board of Directors
CMP	Cost management program
CSC	Customer Service Center
DS	Distribution substation
DGC	Distribution Grid Company
EDA	Electricity distribution zone
EPS	Earnings per share
ERP	Enterprise resource planning
FA	Fixed assets
FGC , FGC UES	Federal Grid Company of Unified Energy System
Free float	Shares of the Company in free float, that is in the hands of public investors as opposed to locked-in stock held by controlling and strategic shareholders
FTS	Federal Tariff Service
FZ	Federal law
GSM	General Meeting of Shareholders
HV	High voltage (110 kV)
IDGC of Centre	Open joint stock company “Interregional Distribution Grid Company of Centre”, the Company
IDP	Innovative Development Program
IFRS (IAS)	International Financial Reporting Standards (International Accounting Standards)
IRM and CS	Internal control and risk management system
KPI	Key performance indicators
kWh	Kilowatt-hour
MOEX	Moscow Exchange
MMTR	Minimum monthly tariff rate
MVA	Megavolt-ampere. Electric power measuring unit
MW	Megawatt
MUE	Municipal unitary enterprise
GCC	Grid Control Center
NRCG	National Corporate Governance Rating
SO of Centre	System Operator of Center
Conductor	Overhead power line
OTM	Operational and technological management
PGC	Power Grid Complex
PL	Power line
RAB (Regulatory Asset Base)	Type of return on invested capital. The key principle is securing a return on invested assets over a specified period and normalized earnings
RAS	Russian Accounting Standards
REC	Regional Energy Commission
RGR	Required gross revenue
RMU	Retrofitting and reconstruction
ROE	Return on equity - net income, expressed as a percentage of equity
RPA	Relay protection and automation
SaA	Subsidiaries and affiliates
SLR	Supplier of last resort
t.f.e.	Ton of fuel equivalent
TGC	Territorial grid companies
SS	Substation, i.e. an electrical installation, designed for transformation and distribution of electric power
TS	Transformer substation
UNPG	Unified National Power Grid