



Compliance Risk

Frequent changes in the legislation of the Russian Federation under the conditions of state regulation of the industry, a wide range of statutory requirements and limitations are the risk factors relating to non-compliance by the Company with the laws and other regulations, requirements of governing and supervising authorities and the Company's internal documents determining the internal policy, rules and procedures (compliance risk).

The Company's activities are regulated and supervised by various authorities, such as the Federal Antimonopoly Service of Russia, Federal Tariff Service of Russia, the Federal Service for Financial Markets of Russia, Federal Tax Service of Russia, the Ministry of Energy of the Russian Federation, Rosfinmonitoring (Federal Service for Financial Monitoring), Rostechnadzor (Federal Service for Ecological, Technological and Nuclear Supervision), Accounting Chamber of the Russian Federation, etc. Furthermore, being an infrastructural regulated entity the Company performs certain engagements of the President and the Government of the Russian Federation. In this respect the compliance risk factors are especially important.

The Company, being a natural monopoly entity, is exposed to the risk of acknowledgement of violation of antimonopoly laws insofar as it relates to the provision of technological connection services, disclosure of information on services rendered and purchasing activities. In order to reduce this risk timeliness of processing of requests and applications of consumers is strictly regulated and timely disclosure of information in accordance with the laws of the Russian Federation is monitored.

The Federal Service for Financial Markets of Russia regulates and controls the Company's activities insofar as it relates to the compliance with requirements of the laws of the Russian Federation on securities, including disclosure of information on significant facts which are able to have a considerable effect on the cost of securities and preventing unauthorized use of insider information.

The tasks of the Accounting Chamber of the Russian Federation, according to the legislation, include organization and control over timely implementation of expenditure items of the federal budget and determination of effectiveness and expediency of spending state funds and using federal property.

Changes in the tax legislation relating to increasing rates or modifying the procedure for tax assessment may result in decrease of profitability indicators and increase of the Company's tax burden.

The Company owns, leases or has a permanent use right for most of land plots on which distribution assets are located. However, for some of those land plots ownership rights are not documented in compliance with legal requirements. Moreover, the legislation sets the period for conversion of a permanent use right to an ownership or lease right until January 01, 2015. In order to minimize the above risk factor the permanent use right conversion program is being implemented.

In order to minimize the above risk factors the Company takes measure to improve the compliance control. In 2012 the Company's Board of Directors approved local documents designated to increase the efficiency and transparency of financial and business activities and to combat corruption. The Company also monitors changes in effective laws which may affect various aspects of the Company's financial and business activities.