

The Russian Federal Tariff Service approved parameters for converting FGC UES to RAB regulation during 2010-2012

December 23nd, 2009

On December 22nd, 2009, the Board of the Russian Federal Tariff Service approved regulation parameters for FGC UES to use a tariff based on the return on invested capital (RAB regulation).

The process of converting FGC UES to RAB regulation will be started as of January 1st, 2010. The first regulatory period will last for three years (2010-2012); and the second period will be for 5 years (2013-2017). For the first 3 years, the following tariffs have been set for power transmission through the Unified National (all-Russian) Electric Grid, using the method of the return on invested capital:

Year	Tariff, RUR/MW per month	Tariff increase, compared with previous year, %
2010	87,868.77	51.10%
2011	115,286.13	31.20%
2012	143,785.68	24.72%

On December 4th, 2009, the Board of the Russian Federal Tariff Service adopted a decision to approve the return on newly invested FGC UES capital created after converting to the RAB regulation system during the first three year long-term regulation period. The return on newly invested capital was approved in the amount of 11%. The return on capital created prior to RAB regulation will be brought up to the levels of return on newly invested capital during the two long-term regulation periods (discussed above).

For the coming three years, the following key tariff regulation parameters were defined for FGC UES, based on the method of the return on invested capital:

№	Parameter	2010	2011	2012
1.	Amount of invested capital as of 01.01.2010 (initial invested capital), RUR bln.	647.6		
2.	Return on initial invested capital, as of 01.01.2010, %	3.9%	5.2%	6.5%
3.	Return on newly invested capital, %	11%	11%	11%
4.	Repayment term for the invested capital, years	35	35	35

Approved parameters of the new regulation will allow FGC UES to finance its government approved 2010 – 2012 investment program in the amount of RUR 519.4 bln, including through attracting credits. On November 5th, 2009, the Russian Federal Service for Financial Markets (FSFM) registered the Company's bond issue in the amount of RUR 50 bln.

When assessing the investment potential upside for the industry due to the RAB regulation system, one needs to take into account several important developments:

All investments included in the Company's tariff, for example, the higher energy tariff, are returned into economics through the stable purchase of equipment, construction materials and

building works, thereby removing any inflationary impact. For each ruble of investment funds included in the tariff, the Company attracts 1 ruble of credits – thus, beginning the multiplier effect. Furthermore, for each additional ruble in the tariff, FGC UES will make a 2 ruble investment.

The RAB regulation offers the Company the opportunity to precisely plan investments for a 3 – 5 year period, based on well-defined investment sources. In addition, the RAB regulation system introduced the concept of fiscal responsibility for fulfilling the investment program to the Company. Based on program fulfillment, the tariff for the following year is corrected.

The legal framework of the RAB regulation ensures FGC UES' responsibility for both the reliability and quality of provided electricity transmission services.

Therefore, as of January 1st, 2010, FGC UES will convert to a tariff setting mechanism (based on the return on invested capital) that has proven to be effective for European Union grid companies.

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About Federal Grid Company

Federal Grid Company (“FGC” or the “Company”) is the owner and operator of the Russian national high-voltage power transmission network. With over 118,000 km of transmission lines and over 296 GVA of installed transformer capacity, it is the largest publicly traded electricity transmission company in the world.

Federal Grid Company's business is to provide energy transmission services to the Russian energy market. It maintains and develops grid facilities and infrastructure in the 73 regions of Russia in which it operates. The Company operates in an exclusive, competition free environment, and is regulated by the Government of the Russian Federation.

The Company's revenue is mainly driven by the transmission tariff set by the Regulator. From 1 January 2010 a new RAB (Regulatory Asset Base) tariff framework, designed to stimulate investment and operating efficiency, will be introduced. After the introductory three year period (2010-2012) the RAB tariff will be reviewed every five years.

Federal Grid Company's operating profit for the 2008 Financial Year was RUR 10,035 million, compared to RUR 4,549 million in 2007, under IFRS. The Group revenue for the reporting period increased 16% on the prior year to RUR 70,807.

The Company was incorporated in June 2002 as a result of reorganization of Russia's electrical power industry. The Russian government is the largest shareholder with a 78.83% stake. The remaining 21.17% of the company's shares are publicly traded in Russia and internationally in the form of GDRs. FGC's common shares are included on the RTS and MICEX Stock Exchanges under the ticker FEES. The company is included in the MSCI Emerging Markets and MSCI Russia indices.

Further information can be found at www.fsk-ees.ru/eng