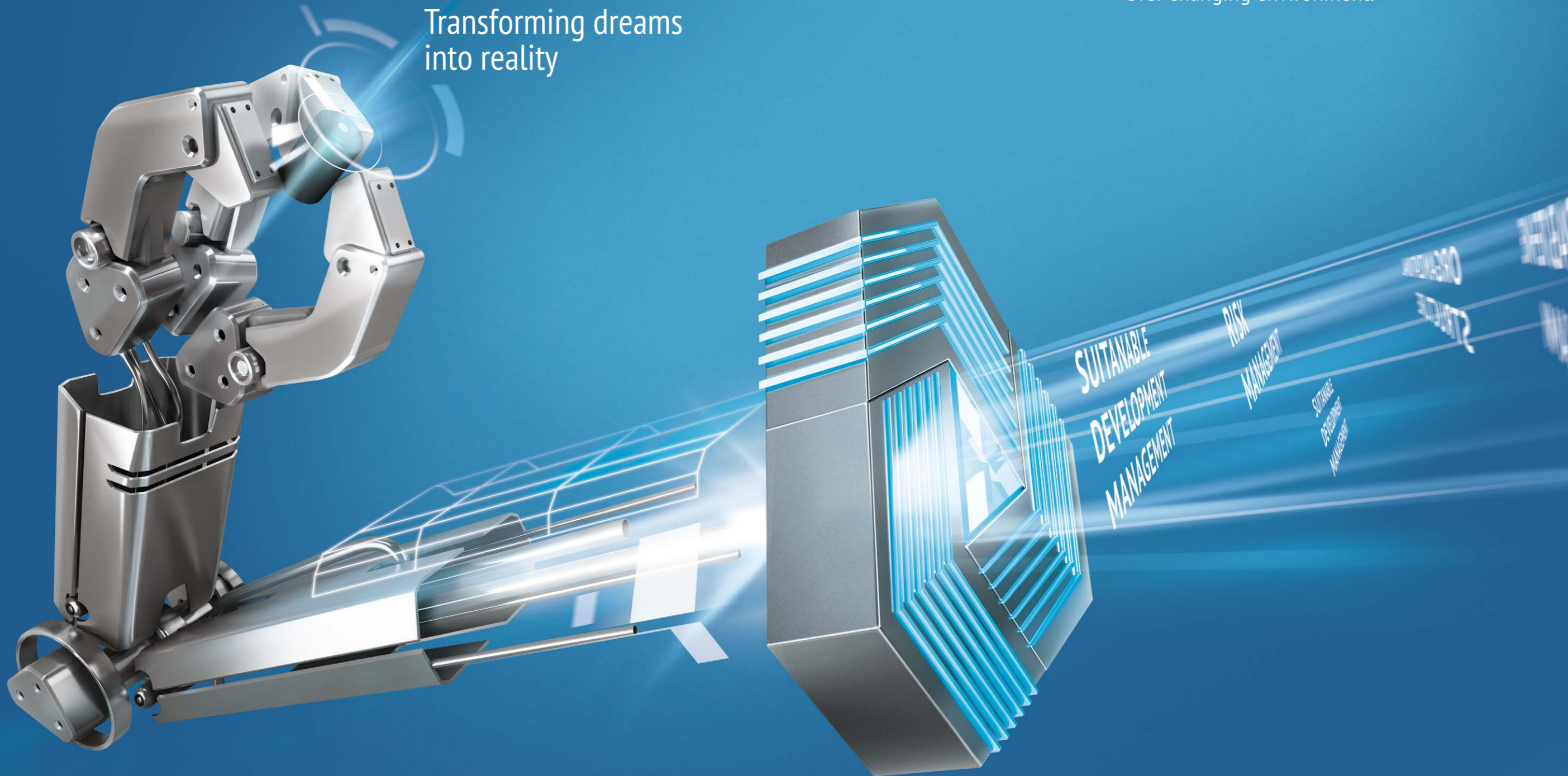


Chapter 3 MANAGEMENT SYSTEM

We enhance our opportunities by consolidating efforts and resources. Synergy produces a tight-knit team translating the biggest dreams into successful projects and breakthroughs. Resilience and sustainable development are two components of our success in the ever changing environment.

Transforming dreams into reality



Chapter 3

MANAGEMENT SYSTEM

GRI G3.1: 1.2 4.8

Sustainable Development Management

Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

As a profit-making entity, TVEL FC seeks to build sustainable business in the interests of its sole shareholder while maximizing the focus on sustainable development. Social commitment of the Fuel Company is historically a given whereas strict compliance with safety regulations is an essential property of the entire nuclear sector. Therefore, sustainable growth of TVEL FC is in harmony with

the strive for high financial and industrial indicators while upholding social and environmental efficiency.

Regardless of the objective limitations that bind the nuclear power sector, it is still about the power of the future and the sector that may contribute greatly to the long-term solution to the problem of global depletion of energy resources and climate change.

The Fuel Company is aimed at complying with the following principles which are essential for sustainable development, including:

- unconditional promotion of nuclear and radiation safety;
- reduction of negative environmental impact of its activity through development and introduction of modern and advanced technologies;
- securing the financial stability of the Company and increasing its competitive capacity;
- the increasingly efficient production activity;
- development of scientific and engineering potential of TVEL FC and the entire nuclear sector;
- social and economic development of the regions of presence;
- personnel care;
- respect for human rights;
- resistance to corruption.

For more details about the abovementioned principles and how the Company upholds them see the Report.

Corporate Governance

TVEL JSC abides by basic Russian and international standards and corporate practices of ROSATOM State Corporation in the area of corporate governance. Improvement of corporate

governance practices aims to increase capitalization of the Company at the expense due to efficiency, accountability and transparency of its operations and management.

During the implementation of corporate policies the activities of subsidiaries are coordinated and monitored in the industrial, scientific, technical, investment, financial, pricing, sales, social and human resource areas. Legal and organizational relationships between TVEL JSC and its subsidiaries are regulated in the implementation of decision-making procedures in production and economic activities. TVEL JSC interacts with ROSATOM State Corporation and its SA in accordance with approved regulations.

Corporate procedures at TVEL JSC and its SA are implemented in accordance with provisions and principles set forth in the Code of Corporate Conduct recommended by the Federal Commission on Securities Market of Russia (FCSMR) (approved by Order of FCSMR No. 421/r dated April 4, 2002).

In accordance with the Regulation on disclosure of information by issuers of securities (approved by the Federal Financial Markets Service Order No. 11-46/pz-n dated October 4, 2011), the Company discloses the following information on Website <http://www.e-disclosure.ru/portal/company.aspx?id=400>: Articles of Association, amendments and modifications to the Articles of Association, annual reports, annual financial reports, reports on the approval of the annual financial reports, notes to the annual

financial reports, audit reports, lists of affiliates, changes made to the list of affiliated persons, and notices about the disclosure of the list of affiliated persons.

Management bodies of TVEL JSC are established in accordance with its Articles of Association.

Decisions on the matters within competence of the General Meeting of Shareholders are made by the sole shareholder of TVEL JSC – Atomenergoprom JSC.

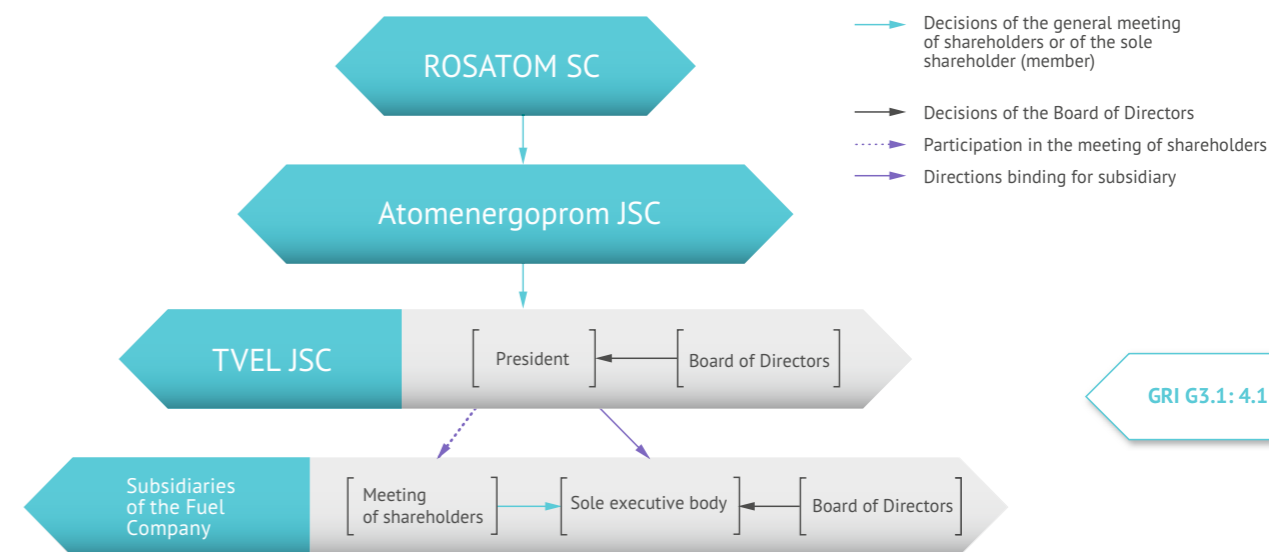
Supreme executive bodies of the companies comprising TVEL FC are represented by the General Meeting of Shareholders (Participants). The General Meeting of Shareholders (Participants) of the companies comprising TVEL FC makes decisions in accordance with procedures set forth in their respective bylaws.

In addition, TVEL JSC and companies comprising TVEL FC are governed by the boards of directors and by the sole executive bodies who conduct their activity in accordance with applicable bylaws approved by the General Meeting of Shareholders.

TVEL JSC and companies comprising TVEL FC are controlled by the audit commissions that conduct their activity in accordance with applicable bylaws approved by the General Meeting of Shareholders (Participants).

GRI G3.1: 4.8

Fig. 5. Corporate Governance Bodies of TVEL JSC



GRI G3.1: 4.1

GRI G3.1: 2.9

Equity Capital Structure

Authorized capital of the Company comprises of par value of the Company's shares owned by the sole shareholder – Atomenergoprom JSC.

Authorized capital of the Company amounts to RUB 22,961,670 (Twenty-two million nine hundred and sixty-one thousand six hundred and seventy rubles).

The Company floated 22,961,670 (Twenty-two million nine hundred and sixty-one thousand six hundred and seventy) registered ordinary shares, each worth RUB 1 (One ruble).

All shares of the Company are issued in a book-entry form.

No changes happened to the structure of equity capital in the year of report.

Board of Directors

The Board of Directors of TVEL JSC plays the key role in management of the Fuel Company.

By decision of the sole shareholder of TVEL JSC No. 21 dated on June 28, 2013, the Board of Directors comprises of:

- **Alexander Markovich Lokshin** – First Deputy General Director of ROSATOM State Corporation, Operations Department;
- **Lyudmila Mikhaylovna Zalimskaya** – Techsnabexport JSC General Director;
- **Kirill Borisovich Komarov** – Deputy General Director of ROSATOM State Corporation, Development and International Business;
- **Vladislav Igorevich Korogodin** – Lifecycle Management Director for Nuclear Fuel Cycle and NPP of ROSATOM State Corporation;
- **Nikolai Iosifovich Solomon** – First Deputy General Director for Corporate Functions – Chief Financial Director of ROSATOM State Corporation;
- **Yuri Alexandrovich Olenin** – President of TVEL JSC.

Members of the Board of Directors do not hold shares of TVEL JSC and its SA.

The Company has no independent members of the Board of Directors within the meaning of the Corporate Code of Conduct recommended by Decree of Federal Commission on Securities Market (FCSM) of the Russian Federation No. 421/r dated on April 4, 2002.

Members of the Board of Directors of TVEL JSC are entitled to no remuneration and refund of expenses related to the performance of their duties.

All Members of the Board of Directors of the Company get their salary at the place of their primary employment.

No committees and commissions functioned with the Board of Directors over the period of report.

For more details about the Members of the Board of Directors see **interactive version of the Report**.

Sole Executive Body

Yuri Alexandrovich Olenin, President of TVEL JSC, performs functions of the Sole Executive Body in accordance with Articles of Association of TVEL JSC, decision of the Sole Shareholder of the Company (No. 17 dated on June 28, 2012) and on the basis of contract entered into with the Company.

President of the Company does not hold any shares of TVEL JSC and its SA.

In accordance with the contract between TVEL JSC and the President of TVEL JSC, the amount of the President's remuneration due at the end of the year shall be determined by Resolution of the Company's Board of Directors based on the financial and economic performance of the Company.

GRI G3.1: 4.3

GRI G3.1: 4.2

GRI G3.1: 4.5 4.9

The Key Performance Indicators (KPI) Chart for the President of TVEL JSC includes:

1. adjusted free cashflow of ROSATOM State Corporation, bln. RUB (new KPI from 2013);
2. adjusted free cashflow of TVEL, bln. RUB (new KPI from 2013);
3. proceeds of the division* from joint products, mln. RUB (new KPI from 2013);
4. reduction of uranium-bearing reserves by FE NFC on the whole, bln. RUB (new KPI from 2013);
5. portfolio of foreign orders for traditional products over a period of 10 years, USD mln.;
6. labor efficiency, mln.RUB/person;
7. level of employee engagement, %;
8. assessment of the manager;
9. LTIFR, %**;
10. no violations above INES Level 2 within the sector and no irradiation of employees in excess of 50 mSv a year;
11. no violations above INES Level 2 within the sector;
12. changes in unit costs by principal product, %.

For details concerning the annual income of Yuri Alexandrovich Olenin, President of TVEL JSC, in 2013 visit the official Website of ROSATOM State Corporation***.

Auditing Commission

The Auditing Commission controls financial and business operations of TVEL JSC. By Decision of the Sole Shareholder of TVEL JSC No. 21 dated on June 28, 2013, the Auditing Commission comprises of:

- **Vladimir Vladimirovich Vas'kovsky** – Head of Department of Operating Cash Flow and Key Products Price Modeling with Efficient Operations Administration of ROSATOM State Corporation;
- **Oleg Ivanovich Linyaev** – Head of the Department of Projects the Life Cycle of NFC with LC NFC Projects Management Administration of ROSATOM State Corporation;
- **Irina Mikhaylovna Leonova** – Head of Economic Planning Department with Administration for Economy and Controlling of ROSATOM State Corporation.

Management of Subsidiaries and Affiliates

Boards of Directors play significant role in management of subsidiaries and affiliates ("the SA") and are competent to handle vital issues concerning the operation of the SA. Preparation of the meetings of the SA Board of Directors involves the departments of TVEL JSC in the study of materials on the agenda and draft decisions.

Property management in TVEL JSC aims to improve the structure and efficient use of non-current assets, including stakes in subsidiaries and other business companies, as well as fixed assets, including real estate. The management covers property of TVEL JSC and its SA alike.

Management of the stakes of business entities is based on the mechanism of corporate relations as well as internal documents that define the order of interaction between TVEL JSC and its subsidiaries and affiliates in various areas of their operational and financial activities.

* On March 3, 2013, the Fuel Company became the administrator of Fuel Division of ROSATOM State Corporation. Techsnabexport JSC is not a member of the Fuel Division and represents a stand-alone industrial complex (Order of ROSATOM State Corporation No. 1/218-P dated March 3, 2013).

** Frequency of injuries resulting in temporary disability (lost time injury frequency rate) is the key indicator of the Company's performance in the sphere of labor protection and industrial safety in accordance with international practices. LTIFR = number of injured persons / man-hours worked by the entire Company)*1,000,000.

*** http://www.rosatom.ru/aboutcorporation/public_reporting/dohody_pravlenie/

The most important decisions regarding management of non-current assets are made by the General Meeting of Shareholders (the Sole Shareholder) and the Board of Directors of TVEL JSC within their respective competencies.

Non-current assets of the Company are managed with the help of an integrated capital assets database that covers federal property operated by the SA of TVEL JSC.

Acquisition and alienation of a real estate by the SA, regardless of its value, is carried out only subject to the approval of the relevant transactions by the Board of Directors of these subsidiaries and affiliates. The sale of real estate shall be carried out on a competitive basis at market prices.

Property management procedures promote efficiency and transparency of decisions made with regard to transactions involving non-current assets and serve to increase profit of the Company.

Management bodies of enterprises comprising the Fuel Company have approved target values of their strategic development and comprehensive efficiency enhancement programs based on optimization of the production function structure and cost reduction through establishment of new and modernization of the existing production facilities, improvement of technological processes, enforcement of the efficient incentive system and restructuring of non-core assets and production lines.

TVEL JSC Board of Directors Report on the Results of the Company's Development by Priority Activities

In 2013, the Board of Directors convened its meetings by correspondence 18 times (with attendance > 90%) to make decisions on the most pressing issues in TVEL FC activities, including:

- approval of budget and financial and economic targets for the year of 2013;
- approval of target organizational chart;
- approval of a series of transactions with equity and share capital of the enterprises comprising TVEL FC, including purchase of additional shares and stakes in KMP OJSC, JSC VPA Tochmash, TSOU CJSC, NF Plant PJSC (Ukraine), KLM LLC, Promyshlennyye Innovatsii CJSC*;
- recommendation to the Sole Shareholder to decide about participation of TVEL JSC in non-profit organizations, such as "Association League to Support Defense Industry and National Association of Procurement Institutes";
- approval of recommendation regarding the distribution of net profit at the end of year 2012;
- approval of termination of TVEL JSC activities in Slovakia in pursuance of ROSATOM State Corporation Policy for the Development of Global Presence Management System and in connection with RUSATOM Overseas CJSC (affiliate of Atomenergoprom JSC) opening its representative office in Slovakia at the end of 2012.

TVEL JSC did not make any transactions in 2013 that would qualify under applicable laws as major transactions or related-party transactions that are subject to prior approval by the Board of Directors.

* KLM LLC, Promyshlennyye Innovatsii CJSC – SA of TVEL JSC that are not included in this Report by the principle of materiality.

Organizational Structure of TVEL JSC

The Organizational Structure of TVEL JSC in 2013 underwent a series of transformations caused by restructuring in accordance with “target programs and tasks first” principle and introduction of design-based approach to implementation of the FC strategy.

GRI G3.1: 2.3 4.1

This approach is in line with industry-wide standards and is put into effect to implement ROSATOM State Corporation project to promote harmonization of the organizational structures of companies comprising the industry. The ultimate goal of these transformations is to establish functional chains of ROSATOM State Corporation – TVEL JSC – SA, enhance the efficient interaction between the management levels within the Fuel Company and to cut the red tape.

Similar approach was applied in 2013 to promote transformation of organizational structures of companies comprising the management pool of the Fuel Company with the focus on standardization of corporate

structures within framework of the same technological conversion, reduction of the number of management levels (target indicator for all SA of TVEL FC – four levels), improvement of quality management and centralization of support functions. Development of organizational structures of the SA was carried out with particular emphasis on invariably high level of nuclear, radiation and industrial safety, health and labor protection by extensive study of impact caused by the relevant changes on safety, identification of potential risks and implementation of preventive measures.

New Organizational Structure of TVEL JSC is presented on Fig. 7

Risk Management

Strategic Tasks and Goals of Corporate Risk Management System (hereinafter – “the CRMS”) of TVEL JSC:

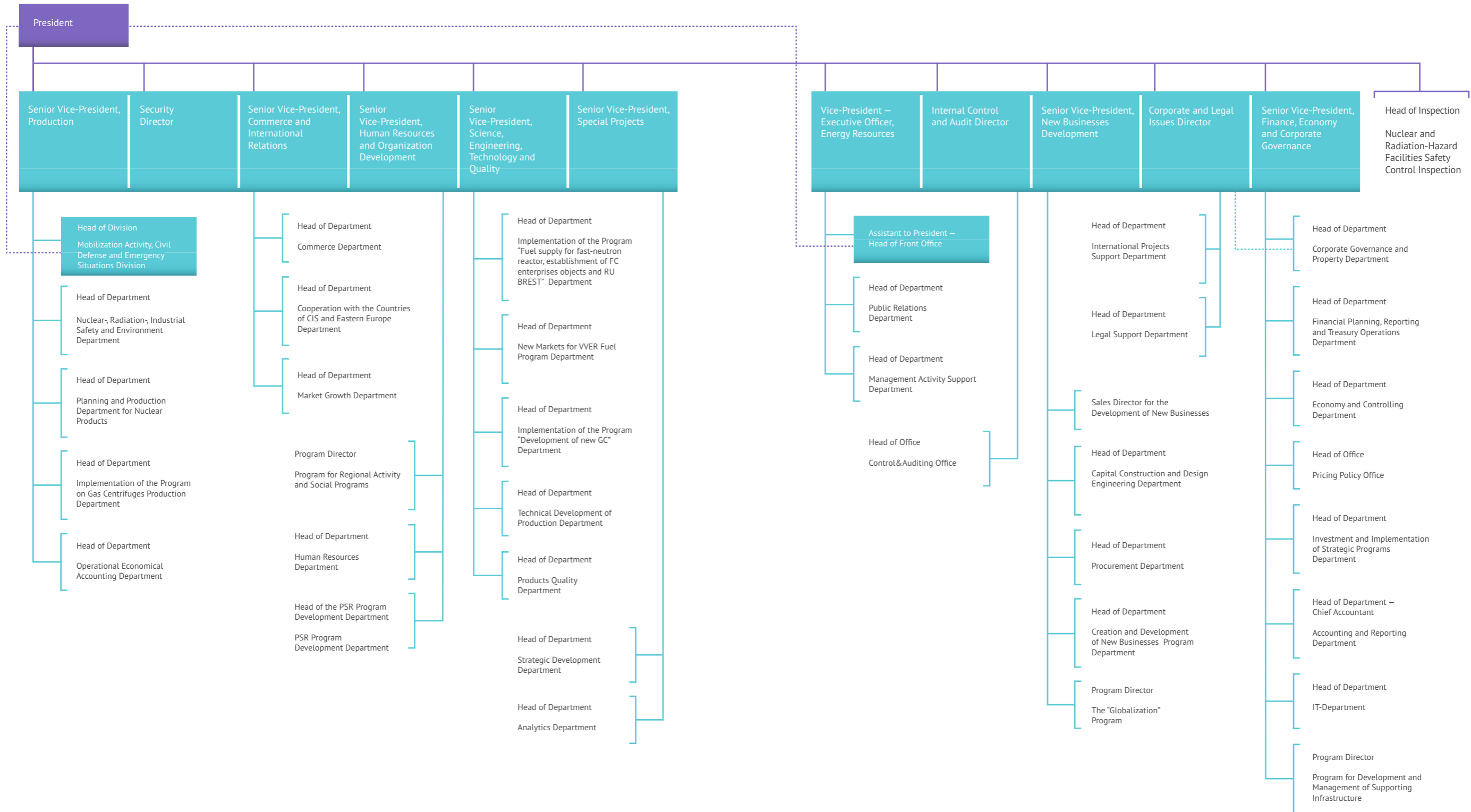
GRI G3.1: 4.9

- promotion of implementation of corporate strategy of ROSATOM State Corporation by performance of corporate-wide risk management process;
- securing the continuity (stability) of all business processes through identification, assessment and minimization of threats capable of influencing the results of activities of TVEL FC, as well as development and introduction of risk monitoring and reporting procedures;
- integration of risk management process in the administrative decision-making processes.

Table 8. Participants of TVEL FC Risk Management Processes and their Roles

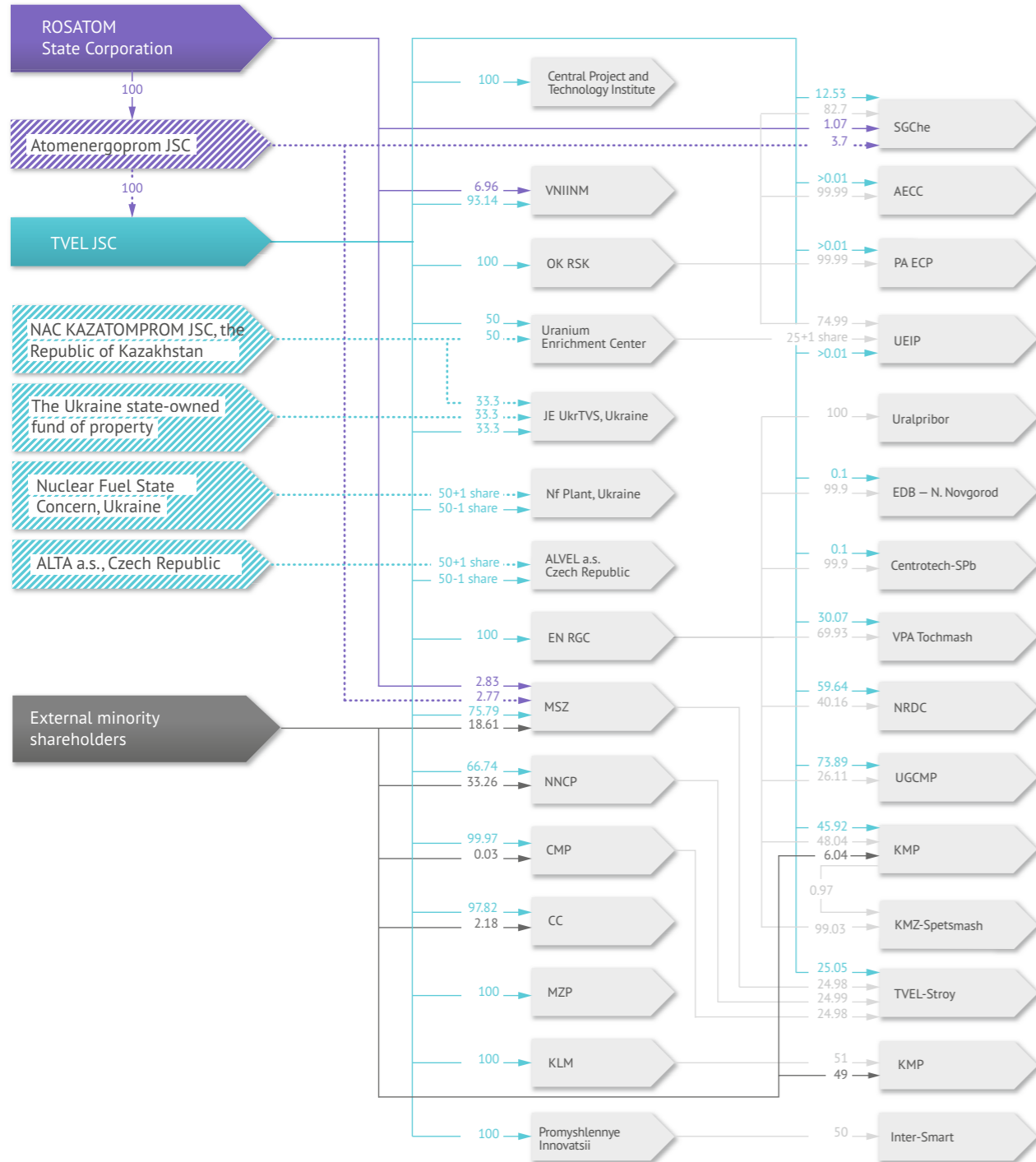
Participants of CRMS of TVEL JSC	Role of CRMS Participants in the Risk Management Process
President of TVEL JSC	Approval of TVEL FC risk management policy, regulations and guidelines
Risk holders	Promotion of implementation of risk management processes
Risk Management Officers	Implementation of risk management processes
TVEL JSC Risk Officer	Methodological support of risk management processes, monitoring of implementation and control of the results
Managers of programs and projects implemented within TVEL FC	Implementation of risk management processes, programs and projects

Fig. 7. Organizational Structure of TVEL JSC as of December 31, 2013



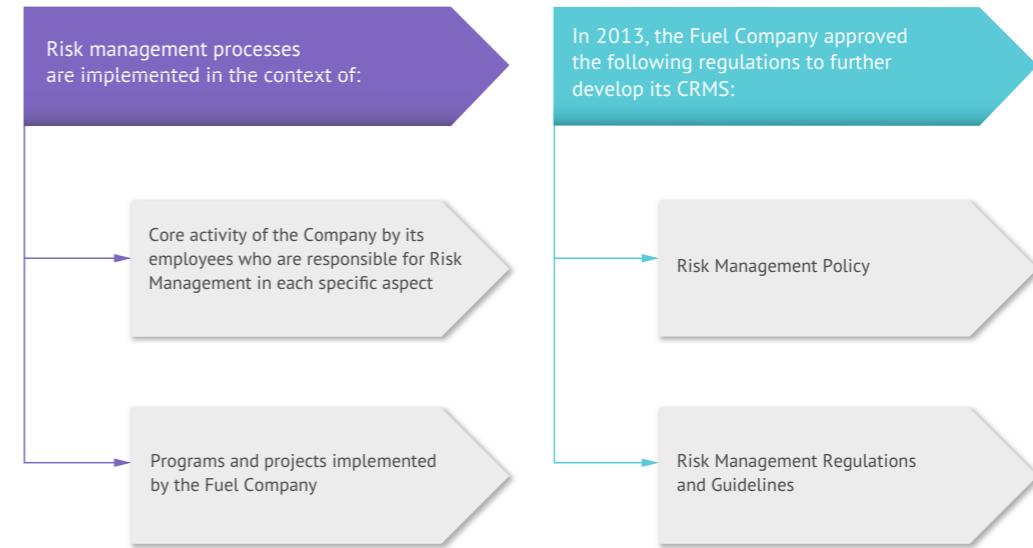
GRI G3.1: 2.3

Corporate ownership structure of TVEL JSC (at the level of subsidiaries and affiliates) as of December 31, 2013.



TVEL FC Risk Management is based on continuous monitoring of the external and internal environment, comprehensive study of threats and opportunities that affect the achievement of economic and social goals.

TVEL FC Key Risks Management



In addition, in order to minimize financial losses and to optimize benefits under the impact of market factors, TVEL JSC approved "Financial Risks Management Procedures and Guidelines for TVEL JSC and Companies comprising the Fuel Company".

The intention is to implement key risks management arrangements, thereby neutralizing (minimizing) the impact of any such key risks on TVEL FC on its path to strategic goals, and to reach target values of core activities within permissible variations set by ROSATOM State Corporation for the period of 2014-2017.

Risks management processes are closely tied with management processes applicable to businesses conducted by TVEL FC. For details about the results of key risks management see relevant sections of the Report (Chapter 4).

Table 9. TVEL FC Key Risks Management

GRI G3.1: 1.2

Risk	Risk	Risk management procedure
Slump in demand for products and services of FE NFC (including reduction of the estimated volume of nuclear fuel supplies and steady volume of work on the conversion and enrichment)	Emergency at the NPP – early decommissioning of power units	Development and promotion of Russian nuclear fuel for NPPs with PWR – the TVS-KVADRAT Project
	Delays in construction and commissioning of power units	Establishment of TVS-KVADRAT production. Increased production and sales of products for general industrial use
	Transition to the production of nuclear fuel with increased resource properties	
	Transition of the foreign enrichment market competitors to centrifuge technology and tightening of quotas	
	Development of new enrichment facilities in China	
	Shale gas boom	
Loss of technological advantages in uranium enrichment technology	Lagging in the technology development behind the competitors	Development and improvement the design of gas centrifuges (GC) of the 9th and 10th generation
		Development of structural materials and GC of the 11th generation
Exchange risk	Gaps in the claim volume and liabilities denominated in the same currency	Hedging (including natural)
	Volatility of world currencies	
Credit risk	Counterparty's failure to perform its obligations in full and in a timely manner due to: deteriorating financial stability of suppliers/customers, increased advances to suppliers/customers, increased volumes/timing of accounts receivable, etc.	Insurance
		Reduced share of advance payments in settlements with external suppliers
Increase in the cost of services for fabrication, enrichment and conversion, GC production	External risk factors:	Development and improvement of the design of GC of the 9th and 10th generation
	<ul style="list-style-type: none"> disruption in global/Russian monetary system; revision of rates applicable to public utilities, transportation companies, etc.; increase of the minimum wages, etc. 	Development of structural materials and GC of the 11th generation
	Internal risk factors:	Creation of a new conversion production at JSC SGChE
	<ul style="list-style-type: none"> faults in organization of production processes; reduced utilization of equipment; depreciation of production technology and equipment, malfunctions, etc. 	Development of new models of accessories for separation plants
		Implementation of energy efficiency and power saving programs

Risk	Risk	Risk management procedure
Property risk	Theft, damage, negligent personnel	Insurance
	Failures of technical, technological, information, etc. systems	
Commodity risk	Market dynamics	Fixed price on products when entering into contracts with suppliers
Reduction of the real supply of non-nuclear products compared to the planned ones	Overrated demand for non-nuclear products	Optimization of process analysis, development and implementation of investment projects aimed at the creation of the production of non-nuclear products
	Absence of explicit advantages in conditions of high competition on prospective markets	Financial and organizational support for the production of innovative products at the times of local deteriorating market conditions
	Deficient competencies and human resources for successful development of non-nuclear businesses	Human resources building-up, more efficient use of human resources, attraction of highly skilled personnel made redundant during the restructuring of the enterprises of TVEL FC, involvement of students and young professionals in the process of production and development of new products
Major accidents/incidents involving the SA	Failure of systems vital for safety	Introduction of modern means of protection and production technologies to ensure protection of workers, population and environment from negative effects and threats
	Insufficient coordination of safety management	Modernization and technical re-equipment of dangerous facilities
	Insufficient resources for implementation of safety arrangements	Neutralization (liquidation) of the sources of hazard
	Insufficient qualification of the staff engaged in the sphere of safety	Personnel development
	Defaulting on mandatory safety requirements	
Social risk	Social changes in the regions of presence that influence the activity of TVEL FC. These changes are caused by non-alternative (in terms of competitiveness) production optimization and reconfiguration of the facilities of TVEL FC	PR and GR events
		Provision of support to new business units formed in the course of restructuring
		Initiation of a series of projects to create innovative production lines at the vacated sites of TVEL FC enterprises
Reputation risk	Publication of materials containing false/intentionally distorted facts that are aimed at discrediting the Company and its products in the media	Rebutment (including in the court) of false information damaging the reputation of the Fuel Company. Organization of PR-campaign to communicate reliable information to a wider audience of stakeholders and to mitigate the possible reputational damage
	Implementation of any key risks	Taking measures for key risk management

Internal Control of TVEL FC

The Internal Control System (ICS) of the Fuel Company is an interconnected integral complex of organizational structures, processes and procedures, rules for their implementation, management system characteristics that continuously or from time to time performs the function of internal control and ensures the achievement of the objectives of internal control.

Special Department for Internal Control (SDIC) is a division of the Fuel Company that is solely engaged in internal control activities with respect to various spheres of business.

SDIC of TVEL JSC (competence of the Internal Control and Audit Division) comprises of Control and Audit Administration, Internal Audit Department and Competitive Policy Control Department, and acts in accordance with regulatory legal acts of the Russian Federation, local regulations of ROSATOM State Corporation and TVEL JSC, and Provisions on the said structural divisions.

Purpose of the ICS in accordance with ROSATOM State Corporation Internal Control Development Concept is to improve assurance in achievement of the strategic goals of TVEL FC and contribute to corporate governance improvement in TVEL JSC and the companies within the control loop of the Fuel Company in accordance with applicable laws of the Russian Federation, regulatory government authorities and international standards.

The purpose of ICS development is to maintain corporate governance mechanisms (primarily, those related to supervisory functions) in adequate condition to changing external and internal situation.

Priority task of the Internal Control and Audit Division is to maintain governance of ICS functioning and development processes.

Main subjects of the internal control system in the Fuel Company: President of TVEL JSC, the Board of Directors of TVEL JSC, management of TVEL JSC, Internal Control and Audit Division of TVEL JSC (ICAD of TVEL JSC), as well as corporate bodies and the SDIC of SA of TVEL JSC.

Objects of control: TVEL JSC, its SA and their structural divisions and the activities they conduct.

Results of 2013

In pursuance of the objectives set for the year of 2013, the Internal Control and Audit Division of TVEL JSC carried out:

- audits of business (management) processes to assess the risk of defaulting on the operations goals; following the audit, the ICS efficiency was assessed and recommendations were made as to the improvement of efficiency and performance of these processes;
- audit arrangements to assess the efficiency of financial and business performance of TVEL JSC and SA of the Fuel Company; based on the results, the auditors drafted the remedial actions plan with respect to violations detected in the course of the audit.

Table 10. Number of Control Activities Conducted by Professionals of the Internal Control and Audit Division of TVEL JSC in 2011-2013

Indicator	Unit of measurement	20 11	20 12	20 13	2013/2012 %
Number of control arrangements carried out in accordance with the plan, including:	ea.	33	38	51	34
in Audit Committees	ea.	23	25	27	8
audit of financial and business activities, including procurement and HR administration	ea.	10	8	16	100
internal audit	ea.	0	5	8	60

All of the audits scheduled in the Consolidated Plan of control measures are implemented.

The ICAD conducts follow-up monitoring of remedial actions with respect to violations detected in the course of the audit.

Tasks for the Period up to 2015

The following actions are taken for the purpose of development of the internal control system in accordance with Internal control Policy of ROSATOM State Corporation and its enterprises for the period up to 2015:

- integration of adequate control procedures in the processes and assignment of duties and responsibilities to the participants for the efficiency of internal control;
- development of mechanisms to encourage of vital stakeholders to take part in internal control activities;
- continuous monitoring of the ICS reliability and efficiency by introduction of various methods to promote continuous control and regular assessment of the internal control system;
- development of the SDIC competencies and potential.

Procurement Activities

Basic documents of TVEL JSC and its SA that regulate procurement activities and set the supplier and contractor selection criteria are:

- Unified Industrial Procurement Standard of ROSATOM State Corporation ("the UIPS");
- TVEL JSC Corporate Standard Procurement Process.

Procurement procedures are implemented using the following electronic platforms: EETP JSC, Fabrikant LLC and A-K-D LLC. This approach to procurement management promotes its openness and transparency, and saves labor and financial resources.

Procurement procedures based on free competition saved TVEL FC in 2013 approx. RUB 2,534.2 mln.

Dynamics of key indicators of efficiency of TVEL FC procurement activities is shown in Table 11 below.

Table 11

Indicator	Unit of measurement	2011	2012	2013
Share of procurement through public competitive procedures under the UIPS	%	90.1	96.2	95.22
Total amount of procurement by TVEL FC	mln RUB	98,152.6	133,386.7	161,199.8
Total amount saved by TVEL FC from procurement through public competitive procedures	mln RUB	1,994.6	2,051.0	2,534.2

Over 90% of competitive procurement procedures are carried out at electronic trading platforms.

Dynamics seen in the Table above indicates the enhanced efficiency of procurement management and transparency of procedures. Efficient interaction with suppliers reduces the risk of corruption, fraud and purchase of substandard quality products.

GRI G3.1: EC6

Pursuant to TVEL JSC Procurement Standards, the Company may not provide any preferences to the suppliers on a territorial basis. Local suppliers participate in competitive procedures on a common basis and are subject to no special approach of any kind. The exception is only envisaged for outsourcing companies founded during the restructuring of the Fuel Company (TVEL FC guarantees certain volumes of orders over a period of five years). To this effect, 75% of orders in 2013 were guaranteed to enterprises comprising TVEL FC and 25% to open tenders; starting in 2014, the proportion will change from 60%-40% to 50%-50% and to 25%-75% every year.

GRI G3.1: HR1 HR2

Some of the key suppliers and contractors of TVEL FC enjoy monopolist position on the

market'. Under the TVEL JSC Procurement Standards, procurement procedures with such contractors are implemented without announcement of any tender (for entities representing natural monopolies) and through the "Procurement from Sole Supplier" procedure.

TVEL FC supports, respects and protects basic human rights and builds its external business relationship on the principles of honesty, integrity and openness.

At the discretion of the suppliers, the competitive procedures may have no provisions that are potentially detrimental to human rights. The Company also keeps any such provisions from its contracts and agreements. Since there are no regulatory requirements, the suppliers and contractors are subject to no assessment for their respect of human rights

but all contracts are checked for compliance with applicable laws of the Russian Federation which implies human rights compliance check. All enterprises comprising the Fuel Company have the all obligatory organizational structure and resources for performance of procurement in accordance with the c UIPS.

Since 2013, all enterprises comprising the Fuel Company place their competitive bids by means of an integrated solution of the centralized procurement system EOS-Zakupki Rosatom (SAP SRM), online trade platforms and the official Website of ROSATOM State Corporation <http://zakupki.rosatom.ru/>.

Over the year of report, Commercial Center JSC (CC JSC)* upgraded its Website by adding a function that allows the potential participants, subject to their prior registration, to receive personal invitations to participate in procurement procedures involving the lots of their interest.

Enterprises covered by Federal Law No. 223-FZ "On Procurement of Goods, Works and Services by Certain Legal Entities" are required to publish the procurement information in the integrated information system of the Russian Federation <http://zakupki.gov.ru/>.

In September 2012, TVEL JSC appointed an arbitration committee that is competent to study complaints against actions (or omission thereof) of the customer, competent authority, procurement manager and/or procurement commission during the implementation of procurement procedures in the interest of organizations governed by TVEL FC.

Over the period of report, 156 complaints were submitted to the arbitration committee with respect to procurement procedures to the amount of RUB 2,274.28 m, of which: 39.8% were found to be without merit; 13.1% – valid; 7.8% – partially valid; 19.6% – revoked by the petitioner; and 19.7% tabled by reason of wrong jurisdiction and other technicalities (wrong procedure, form and terms of filing).

On January 1, 2013, acting in compliance with procurement procedure decentralization policy, TVEL FC set specific limits: subsidiaries and affiliates may engage in procurements to the amount up to RUB 5 mln.; CC JSC shall be responsible for procurement within the range of RUB 5 mln. to RUB 100 mln.; whereas procurement to the amount exceeding RUB 100 mln. shall be within the competence of Atomkomplekt JSC**.

To streamline the decentralized procurement, a number of measures were taken, including:

- personnel recruitment and training;
- setting the structure of supervisory bodies;
- enhancement of asset protection; and
- integration of information systems.

In furtherance of the roadmap "Streamlined Admittance of Small and Mid-sized Businesses to Procurements by Infrastructural Monopolies and Government-linked Companies", approved by Decree of the Government of the Russian Federation No. 867-r dated on May 29, 2013, TVEL JSC developed a plan to facilitate participation of small and mid-sized businesses in competitive procedures of TVEL FC. Implementation of the plan will commence following the approval of regulatory legal acts applicable the roadmap.

Project "FC Logistics Management System Optimization" started late in 2013.

* Analytical capacity of the system is not sufficient for estimates.

* CC JSC is an SA of TVEL JSC specifically assigned to implement procurement procedures.

** Atomkomplekt JSC is one of the SA of ROSATOM State Corporation.

Purpose of a project:

- introduction of category management* in TVEL FC;
- reduction of stock at the warehouses of companies comprising the Fuel Company (optimization of uncalled stock and reduction of their level at the enterprises);
- optimization of warehouse infrastructure and material flows (optimization of material flows both in the internal logistics scheme of the enterprises, between the enterprises comprising TVEL FC and between enterprises of various divisions of ROSATOM State Corporation).

Implementation of the project will continue until 2016.

Information Technologies

Seeking to improve its performance and to optimize business processes, TVEL FC uses the latest information technologies and solutions.

In 2013, the IT Department continued:

- project activities for further development and introduction of modern information systems in accordance with Information Technologies Transformation Program of ROSATOM State Corporation, and the needs of TVEL JSC management with due account for the development plans of the Fuel Company;
- coordination of IT activities of TVEL FC enterprises;
- securing smooth operation of employees.

Key Results of 2013

- Successful completion of the project for replication of Standard Solution for Resource Management System of the Fuel Company on the basis of SAP ERP at KMP OJSC, JSC CMP, JSC PA ECP, JSC NNCP, and JSC AECC.
- Q3-Q4 of 2013 – Uniform Industry-specific System of Electronic Document Management of ROSATOM State Corporation put online at six more enterprises comprising the Fuel Company (Uralpribor Ltd., NRDC LLC, Centrotech-SPb, EDB-Nizhniy Novgorod, CPTI OJSC and JSC MZP).
- Successful completion of project “Replication of Extended Master System for HR Management at Manufacturing Facilities of the Second Line” at JSC PA ECP, JSC CMP and KMP OJSC.
The system contributed to total automation of HR records, organization structure management, time-keeping, salary accounting, performance management and labor protection records. Consequently, all enterprises covered by the SAP ERP of the Fuel Company also operate the Uniform Centralized HR Management System SAP HCM of ROSATOM State Corporation.
- Successful completion of the project “Development of Automated Control System for Design Engineering Pre-production” (ACS DEP) within Fabrication Division. Extended functionality launched into commercial operation at MSZ JSC, JSC CMP, JSC NNCP and TVEL JSC.
- Project “Replication and Development of the ACS DEP” is successfully underway within Gas centrifuges Division. Extended functionality launched into test operation at EDB-Nizhniy Novgorod, KMP OJSC, NRDC LLC., UGCMP LTD., Uralpribor Ltd., Centrotech-SPb – branch of NRDC LLC., and TVEL JSC.

* Category management as it pertains to procurement means the operations plan to promote efficient management of procurement, supplies, stock and interaction with suppliers of each specific category of purchased products. By introducing the category management, TVEL FC intends to minimize involvement of go-between companies and to enter into long-term contracts directly with manufacturers.

Development of the ACS DEP in the course of the abovementioned projects will:

- 1) reduce the cost of design and technological preparation of production through the use of more efficient ways of activity management by 10%;
- 2) expedite coordination of technical documentation with enterprises by 10% through automated interaction with the said enterprises;
- 3) expedite the design and production start-up of products by 20% by coordination of interaction between divisions of the companies and by using standard design solutions and know-how accumulated in the System.

- President of TVEL JSC approved the Agreement for Online Interaction and Use of Digital Signatures in the Course of Design and Engineering Documentation Management at the Enterprises Comprising the Fuel Company.
- NRDC LLC. completed the project “Replication of the Unified Corporate Resource Management System 1C ERP: Rosatom”. The System is put into commercial operation.
- Project “Creation of Centralized Corporate Fund of Normative and Technical Documentation (CFNTD) for Procurement and Documentation of Integrated Management System for Quality, Environment and Safety of the Fuel Company” completed.

IT projects planned for 2013 completed in full.

Pursuant to Rosatom Information Transformation Technology Program, the following projects are planned for 2014 (subject to availability of funding):

- Pilot Implementation of Lifecycle Element Management Subsystems of the Product in Gas centrifuge Division;
- Replication of ACS DEP in Fission and Sublimation Complex (JSC UEIP, JSC PA ECP, JSC SGChE and JSC AECC);
- Development of Operating Activity Automation Concept for JSC VNIINM;
- Development of Concept for Integrated Design Management System at CPTI OJSC;
- Extension of Functionality of Corporate Data Storage and a number of other projects.

Legal Scope of Activity of TVEL FC

TVEL JSC takes part in legislative initiatives of ROSATOM State Corporation in accordance with the plan of law-making activities and within its own competence. The working group prepares suggestions, analyzes draft documents of federal executive authorities, and drafts bills. The suggestions considered by the working group affect the regulation of the activities of TVEL FC and other organizations of the nuclear power industry.

For example, in 2013 TVEL FC professionals participated in drafting of the following regulations:

- regulatory legal acts necessary for implementation of Federal Law No. 190-FZ dated on July 11, 2011 – “On Nuclear Waste Handling and on Amendments to Certain Legislative Acts of the Russian Federation”;
- Draft Federal Law “On Amendments to Federal Law No. 170-FZ dated 21.11.1995 “On the Use of Nuclear Energy” (in the working group of ROSATOM State Corporation).

Corruption Management and Settlement of Conflicts of Interest

The management of TVEL FC fully shares the anti-corruption policy implemented by the government of the country.

Aiming to create conditions that will contribute to reduction of corruption and embezzlement, the enterprises comprising the Fuel Company have adopted a local regulatory document “On Implementation of Comprehensive Program to Prevent Corruption and Embezzlement within TVEL JSC and Companies Subordinate to the Fuel Company” that

is based on the Comprehensive Program to Prevent Corruption and Embezzlement within the Nuclear Industry (2012-2013). ROSATOM State Corporation is now drafting the Comprehensive Program to Prevent Corruption and Embezzlement within the Nuclear Industry (2014-2015).

Phone: 8-800-100-07-07, 0707@rosatom.ru – corporate “hot line” of ROSATOM State Corporation for the prevention of corruption and embezzlement in nuclear industry. For details visit the official website of ROSATOM State Corporation <http://www.rosatom.ru> Section “Partners and Customers” and “Prevention of Corruption and Embezzlement” on Website of the Fuel Company <http://www.tvel.ru> Section “About Fuel Company” and “State Corporation Policy against Embezzlement”.

The following divisions are created for the establishment of a system to control illegal activities within TVEL FC:

- Security Directorate (TVEL JSC) that comprises of Department of Economic Security, Commercial Secrets Protection and the Research and Information Department;
- Assets Protection Directorate (SA) (see Fig. 8) – organized in every SA in 2013.

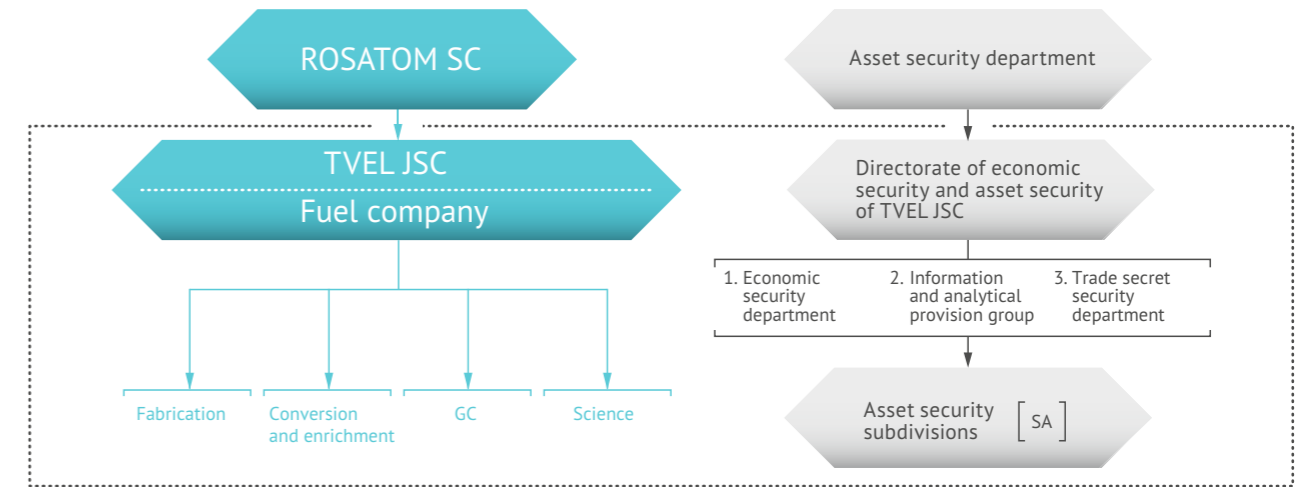
As on December 31, 2013, TVEL FC Assets Protection Divisions employ a total of 60 persons.

The mission of structural units on prevention of illegal activities, viz: their functions, structure and arrangement of work both within TVEL FC and in cooperation with external organizations, is determined by regulations of the relevant departments.

The structural units primarily focus on:

- promotion of economic security and protection of assets of TVEL JSC and its enterprises in the course of their production, financial and economic activities;
- identification, prevention and localization of threats (risks) to economic interests and business reputation of TVEL JSC and its enterprises;
- information and analytical support provided to the President of Company and to structural divisions in the sphere of economic security;
- commercial and official secrets protection within the Company and its SA;
- promotion of personnel security of the Company and its SA.

Fig. 8. TVEL FC Illegal Activities Management System



Structural units of TVEL FC established for illegal activities management continuously monitor assets flow, analyze factors and conditions that contribute to external and internal threats (risks) to assets and economic interests of TVEL JSC and its SA, taking measures to prevent, counter and neutralize their negative impact. The analysis covered all enterprises comprising TVEL FC in 2013. All TVEL FC employees shall study provisions and regulations pertaining to prevention of corruption and embezzlement. This

information is procured to 100% of employees. In addition, the external providers hold special briefings for employees of the relevant divisions on pressing issues in the sphere of anticorruption policy. In 2013, 14 persons took short-term refresher courses (9 persons – “Identification and Prevention of Signs of Corruption” and 5 persons – “External and Internal Threats to Personnel Security at the Enterprises and Organizations of the Industry”).

GRI G3.1: SO2

GRI G3.1: SO3

Key Results in 2013

- 430 inspections (397 in 2012) organized and carried out to prevent damage and loss of assets. 42 packages of materials (34 in 2012) sent to the law enforcement authorities 34 of which (17 in 2012) proceeded to prosecution. Disciplinary actions taken against 121 employees (109 in 2012), 9 of which were dismissed (4 in 2012);
- 52 inspections held to verify information obtained from specialized Hot Line channels about abuse and violations; 13 cases were confirmed (24 out of 51 confirmed in 2012); administrative and material liability imposed against 7 culprits; 3 persons dismissed; no materials were sent to law enforcement authorities;
- business contacts with EnergoRemKomplekt LLC discontinued because the company happened to supply contraband automatic switches;
- damage prevented and indemnified resulting from implementation of economic security and asset protection policy amounted to RUB 473 mln., which is 29% more than in 2012;
- no legal proceedings against the company or its employees with respect to corruption practices completed over the period of report.

GRI G3.1: SO4