

Chapter 3

MANAGEMENT SYSTEM

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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.

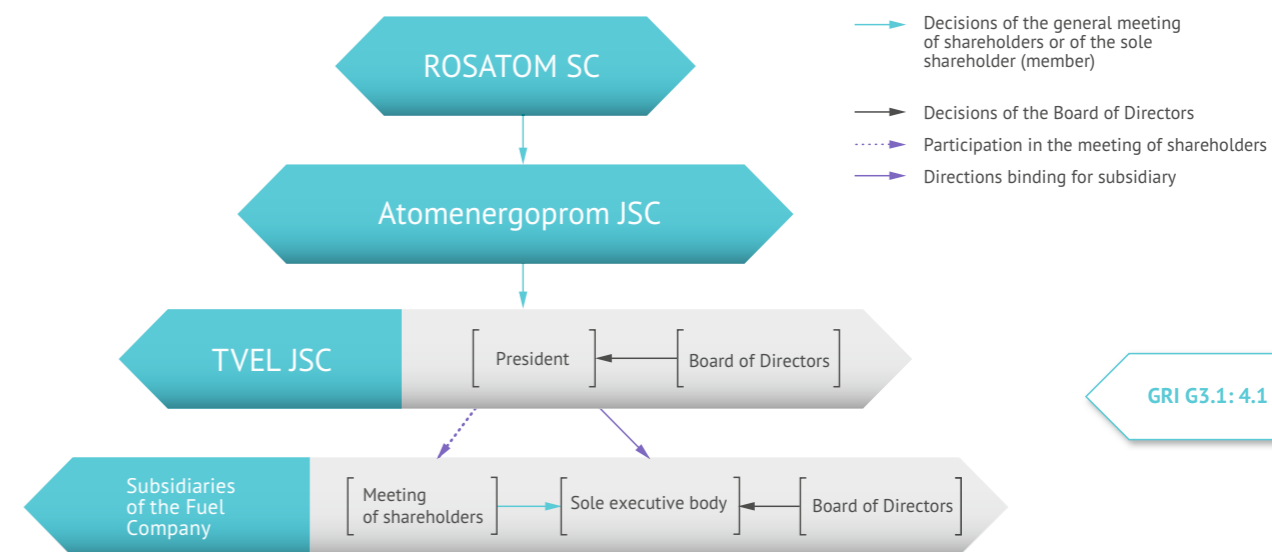
Supreme executive bodies of the companies comprising TVEL FC are represented by the General Meeting of Shareholders (Participants). The General Meeting of Shareholders (Participants) of the companies comprising TVEL FC makes decisions in accordance with procedures set forth in their respective bylaws.

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).

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Fig. 5. Corporate Governance Bodies of TVEL JSC



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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.

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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, Promyshlennye 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, Promyshlennye 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.

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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:

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- 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