

**FEDERAL GRID COMPANY UES GROUP**  
**COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS**  
**PREPARED IN ACCORDANCE WITH**  
**INTERNATIONAL FINANCIAL REPORTING STANDARDS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Open Joint Stock Company «Federal Grid Company of Unified Energy System» (JSC FGC UES):

- 1 We have audited the accompanying combined and consolidated financial statements of JSC FGC UES and its subsidiaries (the Group) which comprise the combined and consolidated statement of financial position as at 31 December 2009, combined and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

- 2 Management is responsible for the preparation and fair presentation of these combined and consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

- 3 Our responsibility is to express an opinion on these combined and consolidated financial statements based on our audit. Except as discussed in the paragraph 6, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Basis for qualified opinion*

- 6 The Group has not maintained adequate accounting records regarding the original cost, revalued amounts, depreciation and impairment provision at the level of individual items of property, plant and equipment. As such, it was not practicable to extend our auditing procedures sufficiently to satisfy ourselves as to the carrying amount of individual items of property, plant and equipment of RR 740,320 million and RR 467,349 million included in the accompanying combined and consolidated statement of financial position as at 31 December 2009 and 2008, respectively, the related revaluation effects in both the combined and consolidated statement of comprehensive income and the combined and consolidated statement of changes in equity, depreciation expenses and reversal of impairment in the combined and consolidated statements of comprehensive income and the related effects on the deferred tax balance.

AUDITOR'S REPORT

*Qualified opinion*

- 7 In our opinion, except for the possible effects, if any, on the combined and consolidated financial statements and comparative information of the matters noted in paragraph 6 above, the accompanying combined and consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

- 8 Without further qualifying our opinion, we draw attention to Notes 1 and 5 to the accompanying combined and consolidated financial statements. The Russian Federation has a controlling interest in the Group and governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation  
16 July 2010

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## FGC UES Group

### Combined and consolidated Statement of Financial Position at 31 December 2009 (in millions of Russian Roubles)

	Notes	31 December 2009	31 December 2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	740,320	467,349
Intangible assets	7	6,392	6,933
Investments in associated companies	8	58,451	44,632
Available-for-sale investments	9	35,229	11,774
Long-term promissory notes	10	8,952	51,010
Other non-current assets	11	959	3,216
<b>Total non-current assets</b>		<b>850,303</b>	<b>584,914</b>
<b>Current assets</b>			
Cash and cash equivalents	12	33,699	15,685
Bank deposits	13	10,187	2,386
Short-term promissory notes	10	48,681	57,251
Accounts receivable and prepayments	14	29,248	31,076
Profit tax prepayments		988	3,635
Inventories	15	3,271	2,767
Other current assets		47	27
<b>Total current assets</b>		<b>126,121</b>	<b>112,827</b>
<b>TOTAL ASSETS</b>		<b>976,424</b>	<b>697,741</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital: Ordinary shares	16	576,757	576,757
Treasury shares	16	(6,864)	(6,864)
Share premium	16	10,347	10,347
Reserves	16	267,533	(2,860)
Retained earnings		(47,795)	13,337
<b>Equity attributable to the shareholders of FGC UES</b>		<b>799,978</b>	<b>590,717</b>
Minority interest		1,570	1,346
<b>Total equity</b>		<b>801,548</b>	<b>592,063</b>
<b>Non-current liabilities</b>			
Deferred profit tax liabilities	17	83,640	36,779
Non-current debt	18	6,000	17,318
Retirement benefit obligations	19	3,439	2,933
<b>Total non-current liabilities</b>		<b>93,079</b>	<b>57,030</b>
<b>Current liabilities</b>			
Accounts payable to the shareholders of FGC UES	16	40,178	-
Current debt and current portion of non-current debt	20	7,545	16,211
Accounts payable and accrued charges	21	32,938	31,456
Other taxes payable	22	1,136	981
<b>Total current liabilities</b>		<b>81,797</b>	<b>48,648</b>
<b>Total liabilities</b>		<b>174,876</b>	<b>105,678</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>976,424</b>	<b>697,741</b>

Authorised for issue and signed on behalf of the Management Board:

16 July 2010

Deputy Chairman of the Management Board

A.V. Kazachenkov

Chief Accountant

V.V. Shchukin

The accompanying notes on pages 9 to 56 are an integral part of these combined and consolidated financial statements

## FGC UES Group

### Combined and Consolidated Statement of Comprehensive Income for the year ended 31 December 2009 (in millions of Russian Roubles)

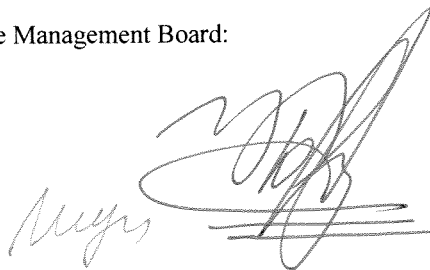
	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Revenues	23	87,580	69,251
Other operating income	23	4,287	6,587
Operating expenses	24	(78,216)	(68,175)
Gain on sale of available-for-sale investments	9	1,504	2,563
Reversal of impairment provision for property, plant and equipment	6	9,642	-
Specific impairment of property, plant and equipment and intangible assets	6,7	(2,287)	(191)
Revaluation loss on property, plant and equipment	6	(105,693)	-
<b>Operating (loss) / profit</b>		<b>(83,183)</b>	<b>10,035</b>
Finance income	25	10,000	8,483
Finance costs	26	(1,484)	(7,119)
Impairment of available-for-sale investments and associates	8,9	(2,018)	(45,107)
Share of result of associates	8	1,893	(1,372)
<b>Loss before profit tax</b>		<b>(74,792)</b>	<b>(35,080)</b>
Profit tax	17	13,347	11,243
<b>Loss for the period</b>		<b>(61,445)</b>	<b>(23,837)</b>
<b>Other comprehensive income</b>			
Change in revaluation reserve for property, plant and equipment	6	297,862	-
Share of other comprehensive income of associates	8	13,390	342
Foreign currency translation difference	8	9	61
Available-for-sale investments	9	25,035	-
Effect of change in tax rate on revaluation of property, plant and equipment	17	-	2,717
Profit tax recorded directly in other comprehensive income	17	(65,366)	(82)
<b>Other comprehensive income for the period, net of profit tax</b>		<b>270,930</b>	<b>3,038</b>
<b>Total comprehensive income for the period</b>		<b>209,485</b>	<b>(20,799)</b>
<b>Loss attributable to:</b>			
Shareholders of JSC "FGC UES"	27	(61,196)	(23,784)
Minority interest		(249)	(53)
<b>Total comprehensive income attributable to:</b>			
Shareholders of JSC "FGC UES"		209,261	(20,753)
Minority interest		224	(46)
<b>Loss per ordinary share for loss attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)</b>	<b>27</b>	<b>(0.053)</b>	<b>(0.031)</b>

Authorised for issue and signed on behalf of the Management Board:

16 July 2010

Deputy Chairman of the Management Board

Chief Accountant



A.V. Kazachenkov

V.V. Shchukin

## FGC UES Group

### Combined and Consolidated Statement of Cash Flows for the year ended 31 December 2009 (in millions of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
<b>Loss before profit tax</b>		<b>(74,792)</b>	<b>(35,080)</b>
<i>Adjustments to reconcile profit before profit tax to net cash provided by operations</i>			
Depreciation of property, plant and equipment	24	16,740	16,216
Loss on disposal of property, plant and equipment	24	1,413	1,488
Revaluation loss on property, plant and equipment	6	105,693	-
Impairment of property, plant and equipment and intangible assets	6,7	2,287	191
Reversal of impairment provision for property, plant and equipment	6	(9,642)	-
Amortisation of intangible assets	24	930	451
Impairment of available-for-sale investments, associates and other financial assets	8,9,26	2,371	49,404
Gain on disposal of available-for-sale investments	9	(1,504)	(2,563)
Share of result of associates	8	(1,893)	1,372
Accrual of bad debt provision	24	5,527	1,872
Interest income	25	(9,358)	(8,431)
Interest expense	26	1,131	2,777
Effect of exchange rate fluctuations on bank deposits denominated in foreign currency	25	(376)	-
Effect of exchange rate fluctuations on other assets/liabilities denominated in foreign currency	25	(21)	(7)
Other non-cash operating income/(costs)		616	(556)
<b>Operating cash flows before working capital changes and profit tax paid</b>		<b>39,122</b>	<b>27,134</b>
<i>Working capital changes:</i>			
Increase in accounts receivable and prepayments		(3,595)	(7,760)
Decrease in other current assets		23	107
Increase in inventories		(542)	(182)
Decrease / (increase) in other non-current assets		437	(2,330)
Increase in accounts payable and accrued charges		1,233	6,760
(Decrease) / increase in taxes payable, other than profit tax		(2,403)	1,598
Increase in retirement benefit obligations		506	325
Profit tax paid		(2,326)	(5,832)
<b>Net cash generated by operating activities</b>		<b>32,455</b>	<b>19,820</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment		(90,079)	(115,198)
Purchase of intangible assets		(855)	(2,497)
Purchase of investments		-	(733)
Purchase of promissory notes		-	(14,000)
Investment in bank deposits		(8,130)	(30)
Redemption of promissory notes		56,725	10,788
Redemption of bank deposits		2,351	529
Disposal of available-for-sale investments	9	2,496	6,063
Dividends received		396	-
Interest received		4,623	4,688
<b>Net cash used in investing activities</b>		<b>(32,473)</b>	<b>(110,390)</b>

The accompanying notes on pages 9 to 56 are an integral part of these combined and consolidated financial statements

## FGC UES Group

### Combined and Consolidated Statement of Cash Flows for the year ended 31 December 2009

(in millions of Russian Roubles)

<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from shares issuance	16	40,178	20,425
Cash received as a result of the merger, net of payments on behalf of the predecessor		-	72,283
Proceeds from issuance of non-current debt		-	1,543
Proceeds from current borrowings		4,000	10,000
Repayment of debt		(23,985)	(8,575)
Dividends paid		(39)	(433)
Interest paid		(2,122)	(2,777)
Finance lease payments		-	(1,951)
<b>Net cash generated by financing activities</b>		<b>18,032</b>	<b>90,515</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>18,014</b>	<b>(55)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	12	<b>15,685</b>	<b>15,740</b>
<b>Cash and cash equivalents at the end of the period</b>	12	<b>33,699</b>	<b>15,685</b>

Authorised for issue and signed on behalf of the Management Board:

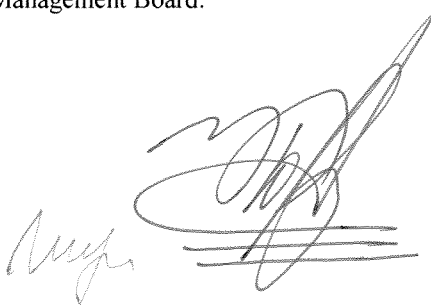
16 July 2010

Deputy Chairman of the Management Board

A.V. Kazachenkov

Chief Accountant

V.V. Shchukin





## FGC UES Group

### Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2009 (in millions of Russian Roubles)

	Note	Attributable to shareholders of FGC UES							Total equity
		Share capital	Share premium	Treasury shares	Reserves (Note 16)	Retained earnings	Total	Minority interest	
<b>As at 1 January 2009</b>		576,757	10,347	(6,864)	(2,860)	13,337	590,717	1,346	592,063
<b>Comprehensive income for the period</b>									
Loss for the period		-	-	-	-	(61,196)	(61,196)	(249)	(61,445)
<b>Other comprehensive income, net of related profit tax</b>									
Share of other comprehensive income of associates	8, 16	-	-	-	10,749	(37)	10,712	-	10,712
Foreign currency translation difference	8	-	-	-	9	-	9	-	9
Gain on change of fair value of available-for-sale investments	16	-	-	-	21,919	-	21,919	-	21,919
Change in revaluation reserve for property, plant and equipment	16	-	-	-	237,716	101	237,817	473	238,290
<b>Total other comprehensive income</b>		-	-	-	270,393	64	270,457	473	270,930
<b>Total comprehensive income for the period</b>		-	-	-	270,393	(61,132)	209,261	224	209,485
<b>As at 31 December 2009</b>		576,757	10,347	(6,864)	267,533	(47,795)	799,978	1,570	801,548

The accompanying notes on pages 9 to 56 are an integral part of these combined and consolidated financial statements

## FGC UES Group

Combined and Consolidated Statement of Changes in Equity for the year ended 31 December 2009  
(in millions of Russian Roubles)

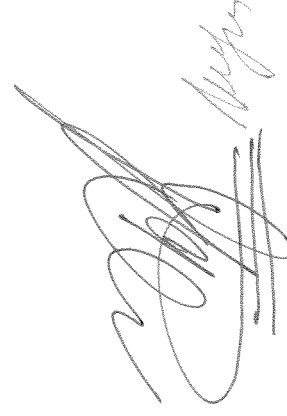
	Attributable to shareholders of FGC UES							Total equity		
	Note	Share capital	Share premium	Treasury shares	Reserves (Note 16)	Retained earnings	Total		Minority interest	
<b>As at 1 January 2008</b>		180,691	-	-	-	37,809	37,284	255,784	27,142	282,926
<b>Comprehensive income for the period</b>										
Loss for the period		-	-	-	-	-	(23,784)	(23,784)	(53)	(23,837)
<b>Other comprehensive income, net of related profit tax</b>										
Change of net assets of associates		-	-	-	-	-	260	260	-	260
Change in tax rate related to revaluation of property, plant and equipment		-	-	-	2,710	-	-	2,710	7	2,717
Foreign currency translation difference	8	-	-	-	61	-	-	61	-	61
<b>Total other comprehensive income</b>		-	-	-	2,771	260	(23,524)	3,031	7	3,038
<b>Total comprehensive income for the period</b>		-	-	-	2,771	(23,524)	(20,753)	(46)	(46)	(20,799)
<b>Transactions with shareholders of FGC UES recorded directly in equity</b>										
Conversion of shares		338,583	-	(6,864)	(43,440)	-	-	288,279	(25,740)	262,539
Issue of share capital	16	57,483	10,347	-	-	-	-	67,830	-	67,830
Dividends declared		-	-	-	-	(423)	(423)	(423)	(10)	(433)
<b>Total transactions with shareholders of FGC UES</b>		396,066	10,347	(6,864)	(43,440)	(423)	(423)	355,686	(25,750)	329,936
<b>As at 31 December 2008</b>		576,757	10,347	(6,864)	(2,860)	13,337	590,717	1,346	592,063	

Authorised for issue and signed on behalf of the Management Board:

16 July 2010

Deputy Chairman of the Management Board

Chief Accountant



A.V. Kazachenkov

V.V. Shchukin

The accompanying notes on pages 9 to 56 are an integral part of these combined and consolidated financial statements

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
(in millions of Russian Roubles unless otherwise stated)

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### Note 1. The Group and its operations

Open Joint Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or “the Company”) was established on 25 June 2002 as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification United Energy System of Russia (“RAO UES”) as a result of implementing the decisions of the Board of Directors of RAO UES dated 25 January 2002 and 7 May 2002 in accordance with the Russian Federation Government Resolution No. 526 “Electric Utilities Reform in the Russian Federation” dated 11 July 2001.

RAO UES itself was created as the holder of certain significant electricity power generation, transmission and distribution assets during the industry privatization in 1992.

The Company was established in the course of the Russian electric utilities industry restructuring, discussed further below, to maintain and operate the high voltage electricity transmission network, received from RAO UES and its subsidiaries, and to provide electricity transmission services using that network.

In 2002 and 2003 the assets of the transmission business (the high voltage network and related assets under construction) belonging to RAO UES were transferred to the Company by RAO UES as a contribution to the share capital of the Company.

In 2008 the reorganization of RAO UES was completed and RAO UES ceased to exist as a legal entity. FGC UES is RAO UES’s legal successor (See also Sector restructuring).

As at 31 December 2009 the FGC UES Group (the “Group”) comprises FGC UES and its subsidiaries presented in Note 4.

The Group’s primary activity is the provision of services for the transmission of electric power via the Unified National Electrical Network (“UNEN”).

Starting from July 2008 the Company’s ordinary registered uncertified shares are traded on the MICEX and RTS exchanges. The shares have been included in the quotation list “B” and received the trading code “FEES”.

The registered office of the Company is located at 5a, Academician Chelomey Str., 117630, Moscow, Russian Federation.

**Relations with the state.** At 31 December 2009 and 31 December 2008, the state owned 77.66 percent of the voting ordinary shares of the Company. The Government of the Russian Federation (“RF”) is the ultimate controlling party of the Company.

The RF directly affects the Group’s operations through regulation by the Federal Tariff Service (FTS).

The investment program of FGC UES is subject to approval by the Ministry of Industry and Electricity and FTS.

As described in the *Operating environment* section below, the Government’s economic, social and other policies could have material effects on the operations of the Group.

**Sector restructuring and FGC UES reorganisation.** Over a period of years the Russian electric utilities industry underwent a reform process designed to introduce competition into the electricity sector and to create an environment in which RAO UES and its successor companies could raise the capital required to maintain and expand current capacity.

The regulatory framework governing the process of reforming the Russian Federation electric utilities industry and the functioning of the industry, both during the transition period and subsequent to the completion of reforms, is set forth in the following legislation: Federal Law No.35-FZ of 26 March 2003 “On Electric Utilities” and Federal Law No.36-FZ of 26 March 2003 “On the Specifics of the Functioning of Electric Utilities During the Transition Period and the Introduction of Amendments to Certain Russian Federation Legislative Acts and the Invalidation of Certain Russian Federation Legislative Acts in Connection with the Adoption of the Law “On the Electric Utilities of the Russian Federation”.

The reform assumed changes in the industry structure with the separation of natural monopoly activities (power transmission, dispatching) from potentially competitive ones (electric power production, supply). The result of the reorganisation of RAO UES is that generation and retailing companies entered the private sector for the most part and will operate in a competitive market. Government control will continue in natural monopoly areas within the industry.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Roubles unless otherwise stated)

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### Note 1. The Group and its operations (continued)

The formation of the transmission companies (TCs), which were formed on the basis of transmission businesses of the regional electric and heat companies during the reform, was completed in 2007. As at 31 December 2007 RAO UES had transferred to FGC UES the shares of 50 TCs (Note 4). This transaction under common control was recorded using the predecessor accounting method (Note 2).

On 1 July 2008 the reorganization of RAO UES was completed by its merger into FGC UES. As a result RAO UES ceased to exist as a legal entity and FGC UES became the legal successor of RAO UES. The reorganization scheme included, inter alia, the spin off from RAO UES of the following companies:

- JSC “State Holding”, which received shares in FGC UES (in the amount proportional to the interest of the Russian Federation in the authorized capital of RAO UES as of the date of approval of the decision on reorganization), shares in six TCs, investments in associates, other assets and liabilities;
- JSC “Minority Holding of FGC UES”, which received a minority stake in FGC UES (proportional to the interest of the minority shareholders in the authorized capital of RAO UES as of the date of approval of the decision on reorganization).

The spin-off of the above holding companies was accompanied by their simultaneous merger with and into FGC UES. The merger was performed in the form of the conversion of the additionally issued shares of the Company for the outstanding shares of JSC “State Holding” and JSC “Minority Holding of FGC UES”.

All transmission companies, including the six TCs whose shares were held by RAO UES (Note 4), except for JSC “Kuban Trunk Grids” and JSC “Tomsk Trunk Grids”, were merged into FGC UES. Seven interregional transmission companies that were controlled by the Russian Federation: ITC Centre, ITC North-West, ITC Volga, ITC South, ITC Ural, ITC Siberia and ITC East, were merged into FGC UES at the same date.

According to the merger agreement the Company’s shares received from all the merged entities mentioned above and not used in the conversion of shares of these merged entities were cancelled in 2008.

As a result of the reorganization the Company received:

- shares of subsidiaries: LLC “Index Energetiki”, JSC “Mobile gas-turbine electricity plants”;
- shares of associates JSC “The First Power Generating Company on the Wholesale Energy Market (WGC-1)”, JSC “Territorial Generating Company number 6 (TGC-6)”, JSC “Volzhskaya Territorial Generating Company (Volzhskaya TGC)”, JSC “Territorial Generating Company number 11 (TGC-11)”, and others (Note 8);
- minority shareholdings in companies of utilities industry (Note 9);
- other assets and liabilities.

The Company’s management does not have an intention to hold the investments in utilities companies (including associates) for the long-term period. It is envisaged that the shares will be sold and the proceeds used to support the Group’s investment in transmission business.

**Operating environment.** The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs.
- The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

#### Note 1. The Group and its operations (continued)

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

#### Note 2. Basis of preparation

**Statement of compliance.** These combined and consolidated financial statements ("Financial Statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

Each enterprise of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

**Functional and presentation currency.** The national currency of the Russian Federation is the Russian Rouble (RR), which is FGC UES's functional currency and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million, unless otherwise stated.

**Predecessor accounting.** The changes in the Group structure are described in Note 1. In these Financial Statements the Group accounted for the acquisition of businesses under the control of RAO UES and its subsidiaries as transactions amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, the assets and liabilities of the contributed entities were combined for the six months ended 1 July 2008 and recorded at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements. Information in respect of the comparative period and opening balances as at 1 January 2008 has been restated as if the business combination took place at the beginning of the earliest period presented. The weighted average number of shares in issue during 2008 was also calculated in accordance with the predecessor method of accounting (Note 27).

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the acquisition of a business from an entity under common control is recorded directly to equity, and reflected in the merger reserve.

All businesses acquired in 2008 were accounted for using the predecessor values method. In 2008 the following former subsidiaries of RAO UES were received by the Group during reorganisation: JSC "Mobile gas-turbine electricity plants", JSC "The Amur Transmission Company", JSC "The Yakutiya Transmission Company", JSC "The Primorie Transmission Company", JSC "The Ulyanovsk Transmission Company", JSC "The Khabarovsk Transmission Company" and JSC "The Tyva Transmission Company".

**New accounting developments.** These combined and consolidated financial statements have been prepared by applying the accounting policies consistent with those of the annual financial statements for the year ended 31 December 2008, except for those policies which were changed to comply with the new or amended standards and interpretations that are in force for the financial periods beginning on 1 January 2009.

(a) Certain new Standards and Interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods:

- IFRS 8, "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The information about operating segments is disclosed in Note 31.
- Amendment to IAS 23, "Borrowing Cost" (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost

**Note 2. Basis of preparation (continued)**

of the asset. Other borrowing costs are recognised as an expense using the effective interest method. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. These combined and consolidated financial statements have been prepared under the revised standard requirements. The information about the interest expense capitalised on borrowings related to qualifying assets is disclosed in Note 26.

- Amendment to IAS 1, “Presentation of Financial Statements” (revised September 2007, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group has elected to present one statement: a statement of comprehensive income. These combined and consolidated financial statements have been prepared under the revised disclosure requirements.
- Improving Disclosures about Financial Instruments - Amendment to IFRS 7, “Financial Instruments: Disclosures” (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. Entities are required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. Entities will also have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. These combined and consolidated financial statements have been prepared under the revised disclosure requirements.
- Amendments to IFRS 2, “Share-based Payment Vesting Conditions and Cancellations” (effective for annual periods beginning on or after 1 January 2009). The amendment deals with two matters: it clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This interpretation does not have any impact on the Group’s combined and consolidated financial statements as it has no share-based payments scheme at the reporting date.
- IAS 28 (Amendment), “Investment in associates” (and consequential amendments to IAS 32, “Financial instruments: Presentation”, and IFRS 7 “Financial instruments: disclosures”) (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example goodwill. Reversals of impairment are reordered as an adjustment to the investment balance to the extent that the recoverable amount of associate increases. This amendment does not have any material impact on the Group’s combined and consolidated financial statements.

**Improvements to International Financial Reporting Standards** (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following Standards and Interpretations:

- IFRS 1 (Amendment) “First time adoption of IFRS” and IAS 27, “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate” (effective for annual periods beginning on or after 1 January 2009).
- IAS 1 (Amendment) and IAS 32 (Amendment), “Puttable financial instruments and obligations arising on liquidation” (effective for annual periods beginning on or after 1 January 2009).
- IAS 16 (Amendment) “Property, Plant and Equipment” (and consequential amendments to IAS 7) (effective from 1 January 2009).
- IAS 20 (Amendment), “Accounting for governmental grants and disclosure of governmental assistance” (effective from 1 January 2009).

**Note 2. Basis of preparation (continued)**

- IAS 36 (Amendment), “Impairment of assets” (effective from 1 January 2009).
- “Reclassification of Financial Assets” — Amendments to IAS 39, “Financial Instruments: Recognition and Measurement”, a subsequent amendment, “Reclassification of Financial Assets: Effective Date and Transition”.
- IFRIC 9 and IAS 39 (Amendment), “Embedded Derivatives” (effective for annual periods ending on or after 30 June 2009).
- IFRIC 13, “Customer Loyalty Programmes” (effective for annual periods beginning on or after 1 July 2008).
- IFRIC 15, “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009).
- IFRIC 16, “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008).

These changes do not have any material impact on the Group's combined and consolidated financial statements.

(b) The following standards, amendments and interpretations to existing standards that have been published are not yet effective and have not been early adopted by the Group:

- IAS 24, “Related Parties Disclosures” (revised November 2009; effective for annual periods beginning on or after 1 January 2011, with earlier application permitted). The revised standard has simplified the definition of a related party and removed inconsistencies. It has also provided a partial disclosure exemption for government-related entities by requiring disclosure about transactions with other entities controlled, or significantly influenced by the same government only if they are individually or collectively significant. The Group is currently assessing the impact of the amended standard on its combined and consolidated financial statements.
- IAS 27, “Consolidated and Separate Financial Statements” (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The estimated impact of application of the revised standard is based on change of negative net assets of the subsidiaries for the year ended 31 December 2009 and equals RR 319 mln (for the year ended 31 December 2008 – RR 262 mln).
- IFRS 3, “Business Combinations” (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the acquisition method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply the new standard to any business combination from 1 January 2010.

**Note 2. Basis of preparation (continued)**

- IFRS 9 “Financial Instruments” (issued November 2009; effective date of mandatory adoption is 1 January 2013 with earlier adoption permitted for 2009 year-end financial statements). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. IFRS 9 is expected to improve comparability and make financial statements easier to understand for investors and other users. The Group is currently assessing the impact of the new standard on its combined and consolidated financial statements.
- Classification of Rights Issues - Amendment to IAS 32, “Financial Instruments: Presentation” (effective for annual periods beginning on or after 1 February 2010 with earlier application permitted). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment issued requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is not currently relevant to the Group.
- Eligible Hedged Items - Amendment to IAS 39, “Financial Instruments: Recognition and Measurement” (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.
- Amendment to IAS 40 “Investment property” (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 July 2009). The amendment clarifies that property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. IAS 40 is not applicable to the Group's financial statements as the Group does not hold any significant investment property.
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2 “Share-based Payment” (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group has no share-based payment transactions.
- IFRIC 17, “Distribution of Non-Cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group will apply IFRIC 17 if it distributes non-cash assets to owners in the future.
- IFRIC 18, “Transfers of Assets from Customers” (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group's accounting policy in respect of assets transferred from customers complies with the requirements of IFRIC 18.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010 with earlier application permitted). The interpretation clarifies the requirements of International Financial Reporting Standards when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. IFRIC 19 is not applicable to the Group's financial statements.



**Note 2. Basis of preparation (continued)**

- Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group is currently assessing the impact of the amended interpretation on its financial statements.
- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The standard may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. As a listed entity, the Group is not eligible to apply this standard.
- Improvements to International Financial Reporting Standards (issued in May 2010; effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods but are not expected to be relevant for the Group financial statements.

- IFRS 5 (Amendment), "Non-current assets held-for sale and discontinued operations" (and consequential amendments to IFRS 1, "First-time adoption of IFRS") (effective from 1 July 2009).
- IAS 29 (Amendment), "Financial reporting in hyperinflationary economies" (effective from 1 July 2009).
- IAS 31 (Amendment), "Interests in joint ventures" (and consequential amendments to IAS 16) (effective from 1 July 2009).
- IAS 41 (Amendment), "Agriculture" (effective from 1 July 2009).
- IFRS 1 "First time adoption of IFRS" (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).

**Note 2. Basis of preparation (continued)**

- IFRS 1 “Additional Exemptions for First-time Adopters” - Amendments to IFRS 1, “First-time Adoption of IFRS” (effective for annual periods beginning on or after 1 January 2010).

There are a number of minor amendments to IFRS 2, IFRS 5, IFRS 7, IFRS 8, IAS 1, IAS 7, IAS 8, IAS 10, IAS 17, IAS 18, IAS 29, IAS 34, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16 which are part of the IASB's annual improvements project published in April 2009 (not addressed above). These amendments are not expected to have a material impact on the Group's accounts.

**Going concern.** These Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business.

**Critical accounting estimates and assumptions.** Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these Financial Statements in conformity with IFRS. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving preparation of estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the Financial Statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Property, plant and equipment.** The fair value of property, plant and equipment was established by an independent valuer as at 1 January 2007 as part of a revaluation. The carrying amount and depreciation of property, plant and equipment are affected by assumptions on the replacement cost, depreciated replacement cost, grouping of individual assets and remaining useful life (Note 6). Actual results may be different from these estimates.

**Investment in JSC "Bashkirenergo".** Management had assessed the level of influence that the Group has on JSC "Bashkirenergo" and determined that it did not amount to significant influence. Consequently, this investment is classified as available-for-sale investment.

**Note 3. Summary of significant accounting policies**

**Principles of consolidation.** The Financial Statements comprise the financial statements of FGC UES and the financial statements of those entities whose operations are controlled by FGC UES. Control is presumed to exist when FGC UES controls, directly or indirectly, through subsidiaries, more than 50 percent of voting rights. The Group holds 49% of the voting rights in JSC "Kuban Trunk Grids", a fully consolidated subsidiary. The Group has the power to govern the financial and operating policies of this subsidiary on the basis of a significant shareholding combined with other factors which allow the Group to exercise control, most importantly: FGC UES has appointed the majority or all of the members of the Board of Directors, FGC UES is the dominant owner and FGC UES has in substance full control of all aspects of the entities assets and operations.

All inter-company balances and transactions have been eliminated. The minority interest in the Group subsidiaries has been disclosed as part of the Group's equity.

**Transfers of subsidiaries between entities under common control.** Transfers of businesses between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiaries transferred under common control are recognised at the predecessor entity's carrying amounts. Any difference between the carrying amount of net assets and the nominal value of share capital contributed is accounted for in these combined and consolidated financial statements as an adjustment to merger reserve within equity.

**Associates.** Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition and is reduced by accumulated impairment losses, if any. The Group discontinues the use of the equity method of accounting from the date when it ceases to have significant influence in the associate.

**Note 3. Summary of significant accounting policies (continued)**

The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss, and its share of post-acquisition movements in reserves is recognised in the Group's other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Goodwill.** Goodwill is recognised on acquisitions of subsidiaries. Goodwill arising on the acquisitions represents any excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of transaction. The carrying amount of goodwill is assessed for impairment on an annual basis. Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is recognised immediately in profit or loss. Goodwill arising on the acquisition of associates is included in the carrying amount of the investment and is not tested separately for impairment.

**Financial instruments - key measurement terms.** Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these Financial Statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the Statement of Financial Position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest reprising date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

**Classification of financial assets.** The Group holds financial assets of the following measurement categories: loans and receivables and available-for-sale financial assets.

*Loans and receivables* are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

**Classification of financial liabilities.** The Group's financial liabilities are carried at amortised cost.

**Note 3. Summary of significant accounting policies (continued)**

**Initial recognition of financial instruments.** The Group's financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

**Derecognition of financial assets.** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Available-for-sale investments.** The Group classifies investments as available for sale at the time of purchase. Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are deferred in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments.

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through current period's profit or loss.

**Foreign currency.** Monetary assets and liabilities, which are held by the Group entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Roubles at the official exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

As at 31 December 2009, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US\$") was RR 30.24:US\$ 1.00 (31 December 2008 – RR 29.38:US\$ 1.00); between the Russian Rouble and Euro: RR 43.39:Euro 1.00 (31 December 2008 RR 41.44:Euro 1.00).

**Property, plant and equipment.** Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and any subsequent accumulated impairment losses, where required.

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that which is determined using the fair value at the end of the reporting period. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to other comprehensive income and increase the revaluation reserve in equity; the increase is recognised in current period profits to the extent that it reverses previously recognised impairment loss of the same assets. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity; all other decreases are recognised in profit or loss for the period. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the assets, and the net amount is restated to the revalued amount of the asset.

The revaluation reserve in respect of an item of property, plant and equipment is transferred directly to retained earnings when the item is derecognised (on the retirement or disposal of the asset).

Renewals and improvements are capitalised and the assets replaced are retired. The cost of minor repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit or loss as incurred.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
(in millions of Russian Roubles unless otherwise stated)

### Note 3. Summary of significant accounting policies (continued)

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The useful lives are reviewed at each financial year end and, if expectations differ from previous estimates, the changes are recognised prospectively.

The useful lives, in years, of assets by type of facility are as follows:

	Useful lives
Buildings	25-60
Electric power transmission grids	30-50
Substations	15-35
Other	5-15

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised as current period loss to the extent it exceeds the previous revaluation surplus in equity on the same asset. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

**Intangible assets.** All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives.

At each reporting date the management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less cost to sell.

Research costs are recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

**Cash and cash equivalents.** Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of origination and are subject to insignificant changes in value.

**Bank deposits.** Bank deposits comprise cash deposited at banks with a maturity date of more than three months from the acquisition date.

**Trade and other receivables.** Trade and other receivables are recorded inclusive of value added tax (VAT). Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

**Note 3. Summary of significant accounting policies (continued)**

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account in profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss.

**Prepayments.** Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

**Value added tax on purchases and sales.** Output VAT on sales should be charged on the earliest of the dates: the date of shipment of goods (works, services) or the date of advance payment receipt from the buyer. Input VAT could be recovered without payment for the goods (works, services). Before 1 January 2009 no VAT on advances given could be recovered. Starting from 1 January 2009 VAT on advances given is generally recoverable VAT due to the budget (due from the budget) is calculated as the difference between output VAT on sales of goods (works, services) and input VAT charged by suppliers and recovered.

**Income taxes.** Income taxes have been provided for in these combined and consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits/losses for the current and prior periods. Taxes other than on income are recorded as operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group's uncertain tax positions are reassessed by management at each end of the reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

**Trade accounts payable and accrued charges.** Trade accounts payable are stated inclusive of value added tax. Trade payables are accrued when the counterparty performed its obligations under the contract. Accounts payable are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

**Note 3. Summary of significant accounting policies (continued)**

**Debt.** Debt is recognised initially at its fair value plus transaction costs that are directly attributable to its issue. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the debt obligation. Borrowing costs are expensed in the period in which they are incurred if not related to purchase or construction of qualifying assets. Starting from 2009 the borrowing costs related to purchase or construction of assets that take a substantial period of time to get ready for use or sale (qualifying assets) are capitalised as part of the cost of the asset. The Group applies the transitional provisions of IAS 23 for borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

**Pension and post-employment benefits.** In the normal course of business the Group makes mandatory social security contributions to the Russian Federation state pension scheme on behalf of its employees. These contributions are expensed when incurred and included in employee benefit expenses and payroll taxes in profit or loss.

In addition, the Group maintains a number of post employment and other long-term benefit plans which are defined benefit in nature. These plans include life pension, lump sum upon retirement, financial support after retirement, jubilee and death benefits and cover majority of the Group's employees. Under the pension plan amount of pension benefits that an employee will receive after retirement depends on his date of birth, number of years of service, position, salary and presence of awards. The Group settles its liability to provide life pension through a non-state pension fund. However, the assets held in the non-state pension fund do not meet definition of plan assets in accordance with IAS 19. These assets are accounted for as other non-current assets. Other benefits, apart from life pension payable via the non-state pension fund, are provided when they are due directly by the Group.

The liability recognised in the Statement of Financial Position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date together with adjustments for unrecognised actuarial gains or losses and past service cost. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that have terms to maturity approximating the terms of the related pension liabilities.

With regard to post employment benefits, actuarial gains and losses in excess of 10% of the defined benefit obligation are recognised as an expense over the average remaining working life of employees. Past service costs are recognised immediately as an expense in the consolidated statement of comprehensive income to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

Actuarial gains and losses and past service costs related to other long-term employee benefits are recognised as an expense in the consolidated statement of comprehensive income when they arise.

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

**Finance lease liabilities.** Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in debts. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

**Treasury shares.** Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholders' equity.

## FGC UES Group

### Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009

(in millions of Russian Roubles unless otherwise stated)

#### Note 3. Summary of significant accounting policies (continued)

**Dividends.** Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the financial statements are authorised for issue.

**Minority interest.** Minority interest represents minority's proportionate share of the equity and comprehensive income of the Group's subsidiaries. This has been calculated based upon the minority interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of minority interests. The Group uses the 'economic entity' approach to the recognition of minority interest, whereby minority is treated as equity participants in the Group. As a consequence, any gains or losses resulting from the purchases and sales of the minority interests are recognised in the statement of changes in equity.

**Revenue recognition.** Revenue amounts are presented exclusive of value added tax. Revenue from rendering the electricity transmission services is recognised in the period when the services are provided. Revenue from sales of electricity is recognised on the delivery of electricity. Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network and is recognized when the customer is connected to the grid network.

**Share capital.** Ordinary shares with discretionary dividends are classified as equity upon completion of share issue and registration of the issue in the Federal Financial Markets Service. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

**Earnings per share.** Earnings per share is determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

**Changes in presentation.** Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassifications for presentation purposes was as follows:

	As originally presented	Reclassification	As currently presented
<b>Combined and consolidated statement of financial position:</b>			
Bank deposits (Note 13)	-	2,386	2,386
Other current assets	2,413	(2,386)	27
<b>Combined and consolidated statement of comprehensive income:</b>			
Revenues	70,807	(1,556)	69,251
Other operating income	5,031	1,556	6,587
<b>Combined and consolidated statement of cash flow:</b>			
Decrease in other current assets	606	(499)	107
Investment in bank deposits	-	(30)	(30)
redemption of bank deposits	-	529	529

The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. Therefore, an entity that makes such a prior period adjustment or reclassification normally presents, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

In these circumstances, management considered whether omitting the opening statement of financial position at 1 January 2008 would represent a material omission of information. In management's opinion, the omission of the opening statement of financial position, is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statements.



## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 4. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation.

The principal subsidiaries as at 31 December 2009 and 31 December 2008 are presented below:

Name	2009		2008	
	Ownership, %	Voting, %	Ownership, %	Voting, %
<b>Transmission companies:</b>				
JSC "The Kuban Trunk Grids"	49.0	49.0	49.0	49.0
JSC "The Tomsk Trunk Grids"	52.0	59.9	52.0	59.9
<b>Other companies</b>				
JSC "Power Industry Research and Development Centre"	100.0	100.0	100.0	100.0
JSC "Energostroisnabkomplekt"	100.0	100.0	100.0	100.0
JSC "Nurenergo"	77.0	77.0	77.0	77.0
JSC "The principle electricity transmission service company of Unified National Electrical Network"	100.0	100.0	100.0	100.0
JSC "Specialized electricity transmission service company of Unified National Electrical Network"	100.0	100.0	100.0	100.0
JSC "Engineering and Construction Management Centre of Unified energy system"	100.0	100.0	100.0	100.0
JSC "DalEnergosetProject"	100.0	100.0	100.0	100.0
JSC "Mobile gas-turbine electricity plants"	100.0	100.0	100.0	100.0
LLC "Index Energetiki"	100.0	100.0	100.0	100.0

*Transmission companies.* The shares of the transmission companies (TCs) were received by FGC UES in 2006-2008 as payment for additional issues of ordinary shares of FGC UES. These Financial statements present these transactions as transactions under common control (Note 2). On 1 July 2008 54 transmission companies and 7 ITC companies (Note 1) ceased to exist as separate legal entities and were merged into the Company forming a single legal entity.

*JSC "Power Industry Research and Development Centre".* JSC "Power Industry Research and Development Centre" is a research and development project institution in the sphere of electric power.

*JSC "Energostroisnabkomplekt".* JSC "Energostroisnabkomplekt" organises the supply of goods and services for companies operating in the industry.

*JSC "Nurenergo".* JSC "Nurenergo" performs electricity and heat distribution and sale activity in the Republic of Chechnya. Due to the difficult operating environment in the Republic of Chechnya, JSC "Nurenergo" has negative net assets after accounting for impairment (Note 6); no minority interest in the negative net asset position of JSC "Nurenergo" is recognised.

*JSC "DalEnergosetProject".* The shares of JSC "DalEnergosetProject" were purchased from RAO UES in June 2008 for consideration of RR 370 million paid in cash. JSC "DalEnergosetProject" is a grid engineering company.

*JSC "Mobile gas-turbine electricity plants"* has been received as a result of merger of RAO UES in July 2008 and accounted for as a business combination under common control using the predecessor value method (Note 2). The primary activity of the company is generating and sale of electricity provided by mobile gas-turbine electricity plants used in power deficient points of the power system or in peak periods as temporary source of additional capacity.

*LLC "Index Energetiki"* owns minority shares in electricity industry entities, former subsidiaries of RAO UES. Control over LLC "Index Energetiki" was obtained as a result of RAO UES reorganization.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 5. Balances and transactions with related parties

#### State controlled entities

In the normal course of business the Group enters into transactions with entities under Government control. Bank loans are provided at the prevailing market rates. Taxes are accrued and settled in accordance with the Russian tax legislation.

During the year ended 31 December 2009 and 31 December 2008 the Group had the following significant transactions with state controlled entities:

	Year ended 31 December 2009	Year ended 31 December 2008
Transmission revenue	77,135	62,449
Connection services	2,418	4
Electricity sales	1,336	833
Other revenue and other operating income	1,588	3,373
Electricity cost	(556)	(344)
Other expenses	(1,972)	(2,579)
Gain on sale of available-for-sale investments (Note 9)	1,106	-
Interest income	3,654	6,053
Interest expenses	-	(35)
Dividend income	24	-
Sub-lease expenses of FGC UES paid to ITC Centre	-	(2,187)
Operating lease income of TGs received from ITC Centre	-	2,183

During the year ended 31 December 2008 the ITC Centre (85% owned by the Russian Federation and 15% owned by FGC UES) acted as the lessee of the property, plant and equipment of TCs (Group entities) and subleased it to FGC UES. Repair and maintenance expenses and depreciation of this property, plant and equipment were borne by the Group's companies. The income received and expenses incurred during the year ended 31 December 2008 in relation to operating leases of the TCs' property, plant and equipment, disclosed in the table above are presented net in these Financial Statements based on the substance of the arrangement.

Significant balances with state controlled entities are presented below:

	31 December 2009	31 December 2008
Cash and cash equivalents	3,405	8,731
Bank deposits	3,244	30
Long-term promissory notes (Note 10)	671	42,815
Short-term promissory notes (Note 10)	46,331	55,147
Trade receivables (Net of allowance for doubtful debtors of RR 4,569 million as at 31 December 2009 and 1,418 million as at 31 December 2008)	6,042	4,391
Other receivables (Net of allowance for doubtful debtors of RR 467 million as at 31 December 2009 and 468 million as at 31 December 2008)	633	1,238
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 1,667 million as at 31 December 2009 and RR 409 million as at 31 December 2008)	205	1,246
Accounts payable to the shareholders of FGC UES	(40,178)	-
Accounts payable and accrued charges	(10,834)	(10,752)
Long-term accounts receivable	(296)	(296)
Current debt	(505)	(505)

Tax balances and charges are disclosed in Notes 17, 22 and 24. Tax transactions are disclosed in the Statement of Comprehensive Income.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 5. Related parties (continued)

#### Associates

During the reporting period the Group had the following significant transactions with associates:

	Year ended 31 December 2009	Year ended 31 December 2008
Other operating income	14	89
Electricity cost	(94)	(50)
Other expenses	(84)	(73)
Dividend income	24	-

The Group had the following significant balances with associates:

	31 December 2009	31 December 2008
Trade payables	469	318
Trade receivables	9	1
Other receivables	104	222

**Directors' compensation.** Compensation is paid to members of the Management Board for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the period according to Russian statutory financial statements. Also, additional medical coverage is provided to the members of Management Board and their close family members.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year. Fees, compensation or allowances, are not paid to the members of the Board of Directors who are government employees.

Total remuneration in the form of salary, bonuses and non-cash benefits provided to the members of the Board of Directors and Management Board for the years ended 31 December 2009 and 2008 was as follows:

	2009		2008	
	Expense	Accrued liability	Expense	Accrued liability
Short-term compensation, including salary and bonuses	98	1	77	18
Remuneration for serving on the Board of Directors	4	-	5	-
Post-employment benefits	12	58	19	46
<b>Total</b>	<b>114</b>	<b>59</b>	<b>101</b>	<b>64</b>

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 6. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
<b>Appraisal value or cost</b>						
Opening balance as at 1 January 2009	15,380	152,170	98,435	212,365	22,725	501,075
Additions	404	26	5,163	83,666	2,135	91,394
Transfers	823	1,791	14,754	(19,165)	1,797	-
Disposals	(8)	(47)	(918)	(726)	(294)	(1,993)
Elimination of accumulated depreciation and impairment	(931)	(16,509)	(24,808)	(3,235)	(6,484)	(51,967)
Reversal of impairment provision	734	7,238	1,666	-	4	9,642
Revaluation increase	5,510	269,264	32,515	40	1,418	308,747
Decrease in revaluation reserve	(696)	-	(11)	(9,025)	(1,153)	(10,885)
Revaluation loss	(22)	(963)	(3,211)	(90,212)	(11,285)	(105,693)
Closing balance as at 31 December 2009	21,194	412,970	123,585	173,708	8,863	740,320
Including PPE under finance lease			2,273			2,273
<b>Accumulated depreciation and impairment</b>						
Opening balance as at 1 January 2009	(657)	(10,723)	(16,376)	(1,481)	(4,489)	(33,726)
Charge for the period	(275)	(5,804)	(8,612)	-	(2,049)	(16,740)
Specific impairment loss	-	-	-	(1,755)	(66)	(1,821)
Disposals	1	18	180	1	120	320
Elimination of accumulated depreciation and impairment	931	16,509	24,808	3,235	6,484	51,967
Closing balance as at 31 December 2009	-	-	-	-	-	-
Including PPE under finance lease			-			-
Net book value as at 1 January 2009	14,723	141,447	82,059	210,884	18,236	467,349
Net book value as at 31 December 2009	21,194	412,970	123,585	173,708	8,863	740,320

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 6. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
<b>Appraisal value or cost</b>						
Opening balance as at 1 January 2008	15,059	148,227	93,059	109,885	19,042	385,272
Additions	149	1,504	423	114,439	1,664	118,179
Transfers	276	2,521	5,808	(10,816)	2,211	-
Disposals	(104)	(82)	(855)	(1,143)	(192)	(2,376)
Closing balance as at 31 December 2008	15,380	152,170	98,435	212,365	22,725	501,075
Including PPE under finance lease	-	-	5,830	-	68	5,898
<b>Accumulated depreciation and impairment</b>						
Opening balance as at 1 January 2008	(373)	(5,217)	(8,618)	(1,320)	(2,058)	(17,586)
Charge for the period	(292)	(5,514)	(7,917)	-	(2,493)	(16,216)
Impairment loss/reversal of impairment provision	-	-	-	(161)	(30)	(191)
Disposals	8	8	159	-	92	267
Closing balance as at 31 December 2008	(657)	(10,723)	(16,376)	(1,481)	(4,489)	(33,726)
Including PPE under finance lease	-	-	(3,096)	-	(36)	(3,132)
Net book value as at 1 January 2008	14,686	143,010	84,441	108,565	16,984	367,686
Net book value as at 31 December 2008	14,723	141,447	82,059	210,884	18,236	467,349

Borrowing costs of RR 797 million for the year ended 31 December 2009 are capitalised in additions above. Capitalisation rate of 7.3% for the year ended 31 December 2009 was used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2009 such advances amounted to RR 34,328 million, net of revaluation loss of RR 21,115 million and specific impairment of RR 1,633 million. As at 31 December 2008 the advances amounted to RR 58,375 million, no revaluation loss or specific impairment was recorded at that date.

The Group obtains bank guarantees in relation to advances paid to construction companies and suppliers of property, plant and equipment. These guarantees represent an irrevocable assurance of the bank to make payments to the Group in the event of the default of the construction company or supplier of property, plant and equipment on its obligations. The total amount of guarantees received is RR 68,709 million as at 31 December 2009 (RR 57,434 million as at 31 December 2008) including VAT.

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

The Group's assets do not include land on which the Group's buildings and facilities are situated. The Group has the option to purchase this land upon application to the state registering body or to formalize the right for rent. According to Russian legislation the expiry date of this option is 1 January 2010 and for the land on which electric power transmission lines are located is 1 January 2013. The Group companies have not filed any application to purchase the land as at 31 December 2009.

**Note 6. Property, plant and equipment (continued)**

**Revaluation.** The property, plant and equipment have been revalued at 31 December 2009. The revaluation was performed by independent appraisers on a depreciated replacement cost basis, except for most of administrative buildings which were valued on the basis of recent market transactions involving similar assets on arm's length terms. The replacement cost for most power transmission lines, substations and construction in progress is based on their technical capabilities, construction costs and construction cost estimates. The cost to replace the majority of the Group's equipment is measured on the basis of purchase agreements and manufacturers' and selling companies' price-lists. The depreciated replacement cost was tested for impairment using a profitability test with respect to each cash generating unit. The Group's transmission segment (Note 31) was considered as a single cash generating unit.

The following assumptions have been made as part of the profitability test:

- Revenue projections are based on the Group's expectations of an increase of the rate of return on capital employed prior to the transfer to Regulatory Asset Base tariff regulation – up to 11% in 2017. A 0.5% change in the expected return on capital employed would impact the carrying amounts of property, plant and equipment by approximately 8%;
- The value of the capital employed for the purpose of the second and subsequent long-term regulation periods will be determined based on independent valuation;
- The amount of expenditure for the period from 2012 through 2029 required for the maintenance of the current property, plant and equipment is assumed to be equal to the amount of such expenditure determined as allowable for the purpose of tariff regulation;
- A nominal pre-tax discount rate of 13% was determined based on the weighted average cost of capital. A 0.5% change in the discount rate used would impact the carrying amounts of property, plant and equipment by approximately 7%.

The increase in the carrying amount resulting from the revaluation of property, plant and equipment has been recognised in other comprehensive income as a revaluation reserve unless it reverses a previously recognised impairment loss, in which case this reversal was recognised in profit for the year. A decrease in the carrying amount has been recognised in other comprehensive income to the extent any credit balance existed in the revaluation surplus in respect of that asset. All other decreases are recognised as a loss for the year.

As a result of the revaluation the Group's equity increased by RR 238,290 million, comprising an increase in the carrying value of property, plant and equipment of RR 297,862 million, net of a related deferred tax of RR 59,572 million. At the same time, RR 9,642 million of previously recognised impairment was reversed and a revaluation loss of RR 105,693 million was recognised as a loss for the year; a related net deferred tax movement of RR 19,210 million was credited to profit and loss for the period.

As most of the Group's assets relate to the transmission business, any shortfall between the depreciated replacement cost and the result of the profitability test at each revaluation date is allocated pro rata across all assets, including construction in progress which includes advances for construction. Consequently, the revaluation loss recognised on construction in progress should be considered alongside the revaluation increase recorded on other asset groups. The total effect of the revaluation undertaken as at 31 December 2009 on the property, plant and equipment is, when seen in this context, an increase of RR 201,811 million.

For each revaluated class of property, plant and equipment stated at revalued amount in these Financial Statements, the carrying amount that would have been recognized had the assets been carried under the historical cost basis is as follows:

	<b>Buildings</b>	<b>Power transmission grids</b>	<b>Substations</b>	<b>Construction in progress</b>	<b>Other</b>	<b>Total</b>
Net book value as at 31 December 2009	11,183	119,809	73,439	265,528	20,722	490,681
Net book value as at 31 December 2008	9,877	116,650	63,170	203,123	19,069	411,889

**Impairment.** During the year ended 31 December 2009 the Group recorded a specific impairment provision in relation to advances issued for the purchase of property, plant and equipment and construction in progress in the amount of RR 1,633 million (nil as at 31 December 2008).

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 6. Property, plant and equipment (continued)

A specific impairment loss recognised in 2009 in the amount of RR 188 million (2008: RR 191 million) arose in relation to the property, plant and equipment of JSC "Nurenergo". As a consequence of the military, political and economic situation in Chechen Republic, the earnings of JSC "Nurenergo" from sales of electricity purchased on wholesale electricity market do not exceed current operating expenses. An impairment loss was recognised in respect of the balance for all construction in progress and property, plant and equipment in JSC "Nurenergo".

**Leased property, plant and equipment.** Subsequent to the latest revaluation the Group leased certain equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2009 the net book value of leased property, plant and equipment was RR 2,273 million (as at 31 December 2008 – RR 2,766 million). The leased equipment is pledged as security for the lease obligations.

**Operating leases.** The Group leases a number of land areas owned by the local government under operating lease. The expected lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2009	31 December 2008
Under one year	476	125
Between two and five years	1,140	815
Over five years	8,482	5,031
<b>Total</b>	<b>10,098</b>	<b>5,971</b>

The above lease agreements are usually signed for period of 1 to 49 years and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

As at 31 December 2009 the carrying value of property, plant and equipment leased out under operating lease is RR 1,856 million (31 December 2008: RR 795 million).

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 7. Intangible assets

	Corporate system of managing geographically dispersed resources	Corporate information management system (SAP-R3)	Other software	Total
<b>Cost at 1 January 2008</b>	1,488	3,009	1,039	5,536
Accumulated amortisation	(193)	(195)	(262)	(650)
<b>Carrying value at 1 January 2008</b>	1,295	2,814	777	4,886
Additions	218	1,424	1,594	3,236
Disposals	-	(481)	(257)	(738)
Amortisation charge	(168)	(203)	(80)	(451)
<b>Carrying value at 31 December 2008</b>	1,345	3,554	2,034	6,933
Cost at 31 December 2008	1,706	3,952	2,376	8,034
Accumulated amortisation	(361)	(398)	(342)	(1,101)
<b>Carrying value at 31 December 2008</b>	1,345	3,554	2,034	6,933
<b>Cost at 1 January 2009</b>	1,706	3,952	2,376	8,034
Accumulated amortisation	(361)	(398)	(342)	(1,101)
<b>Carrying value at 1 January 2009</b>	1,345	3,554	2,034	6,933
Additions	1	627	479	1,107
Disposals	-	(81)	(316)	(397)
Disposals of accumulated amortisation	-	-	145	145
Amortisation charge	(171)	(294)	(465)	(930)
Impairment loss	-	(466)	-	(466)
<b>Carrying value at 31 December 2009</b>	1,175	3,340	1,877	6,392
Cost at 31 December 2009	1,707	4,498	2,539	8,744
Accumulated amortisation	(532)	(692)	(662)	(1,886)
Accumulated impairment	-	(466)	-	(466)
<b>Carrying value at 31 December 2009</b>	1,175	3,340	1,877	6,392

The Corporate system of managing geographically dispersed resources is a software system for gathering, processing and storing information on conditions in the transmission network, which is required for effective maintenance of UNEN. The Corporate system of managing geographically dispersed resources is amortised during 5 years. The Corporate system of managing geographically dispersed resources includes the development cost of RR 847 million at 31 December 2009 and at 31 December 2008.

Corporate information management system (SAP-R3) consists of several modules (parts) and related licences. As at 31 December 2009 only certain modules (parts) were placed in operation and are subject to amortisation. These modules are amortised during 5 years, on a straight-line basis. The Corporate information management system (SAP-R3) includes the development cost of RR 2,178 million as at 31 December 2009 and RR 1,745 million as at 31 December 2008.

Other software includes capitalised software development costs that meet the definition of an intangible asset of RR 1,079 million as at 31 December 2009 and RR 1,122 million as at 31 December 2008.



## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 8. Investments in associated companies

The movements in the carrying value of investments in associates are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Carrying value at 1 January	44,632	509
Acquisition of associates	-	47,052
Share of result of associates	1,893	(1,372)
Impairment of investment	(1,473)	(1,766)
Translation difference	9	61
Disposal	-	(194)
Equity movements:		
Property, plant and equipment revaluation reserve	13,436	454
Other equity movements	(46)	(112)
<b>Carrying value at 31 December</b>	<b>58,451</b>	<b>44,632</b>

During 2008 significant investments in associates were acquired as a result of the merger with RAO UES in exchange for additional shares issued by the Company. These investments, except for JSC "WGC-1", were initially recognized at their fair value at the date of transaction as the Company's shares were not actively traded at that date. The investment in JSC "WGC-1" was acquired in a transaction under common control and was recorded at the predecessor entity's carrying amount.

	31 December 2009	31 December 2008
JSC "WGC-1"	30,053	17,657
JSC "Volzhskaya TGC"	17,774	15,920
JSC "TGC-6"	6,066	7,772
JSC "TGC-11"	3,624	2,294
Other associates	934	989
<b>Total</b>	<b>58,451</b>	<b>44,632</b>

Where there was an active market and quoted prices for shares, the fair value of the associates as at the date of acquisition was established using the market prices. When no published quoted price was available, the fair value was determined by applying various valuation techniques. The fair value of investments in associates for which a published price is available is as follows:

	31 December 2009	31 December 2008
JSC "WGC-1"	14,124	6,581
JSC "Volzhskaya TGC"	13,746	2,515
JSC "TGC-6"	4,508	1,748
JSC "TGC-11"	2,534	786

The following is summarised financial information, in aggregate, in respect of significant associates:

31 December 2009	Ownership/ Voting, %	Assets	Liabilities	Revenues	Profit/(Loss)
JSC "WGC-1"	43.1	96,081	(26,353)	49,292	(1,428)
JSC "TGC-6"	24.7	40,625	(10,103)	22,342	1,951
JSC "Volzhskaya TGC"	33.7	69,470	(16,650)	52,390	4,305
JSC "TGC-11"	27.5	19,921	(6,718)	17,394	2,335

31 December 2008	Ownership/ Voting, %	Assets	Liabilities	Revenues (since the date of acquisition)	Profit/(Loss) (since the date of acquisition)
JSC "WGC-1"	43.1	60,105	(19,162)	25,120	(29,182)
JSC "TGC-6"	24.7	42,257	(6,310)	9,853	437
JSC "Volzhskaya TGC"	33.7	67,943	(15,084)	27,021	1,126
JSC "TGC-11"	27.5	14,225	(4,687)	7,596	(3,445)

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 8. Investments in associated companies (continued)

**Revaluation of property, plant and equipment of associates.** The property, plant and equipment of associates was revalued as at 31 December 2009 by an independent appraiser. The Group's share of the revaluation surplus recognised in the Group's other comprehensive income was RR 14,151 million; the related deferred tax charge of RR 2,830 million was also recognised in other comprehensive income. The revaluation decrease on JSC "TGC-6" in the amount of RR 715 million reduced the revaluation surplus previously recognised in other comprehensive income; the related deferred tax of RR 143 million was credited to other comprehensive income.

**Impairment of investments in associates.** As at 31 December 2009 the Group has assessed whether the carrying value of the investments exceeded their recoverable amount at that date. The Group determined the recoverable amount based on value in use being the present value of the future cash flows expected to be derived from the investment. The future expected cash flows were discounted at 18% being the nominal pre-tax discount rate determined based on the weighted average cost of capital of the associates. Pursuant to this impairment test, an impairment loss of RR 1,473 million was recognised in relation to the investment in JSC "TGC-6" as a loss for the period; the related deferred tax of RR 295 million was credited to profit and loss.

In 2008 an impairment loss of RR 1,766 million was recognised in relation to the investment in JSC "Volzhskaya TGC"; the related deferred tax of RR 353 million was credited to profit and loss.

### Note 9. Available-for-sale investments

	31 December 2008	Disposal	Change in fair value*	Impairment charge	31 December 2009
JSC "Bashkirenergo"	1,395	-	6,304	-	7,699
JSC "Mosenergo"	1,705	-	4,173	-	5,878
JSC "RusHydro"	2,673	-	2,664	-	5,337
JSC "MRSK Holding"	1,033	-	3,214	-	4,247
JSC "WGC-6"	1,039	-	1,860	-	2,899
JSC "Inter RAO UES"	351	-	2,317	-	2,668
JSC "WGC-4"	528	-	1,733	-	2,261
JSC "TGC-1"	177	-	680	-	857
JSC "WGC-3"	199	-	619	-	818
JSC "WGC-2"	176	-	450	-	626
JSC "Sangtudinskaya GES-1"	1,100	-	-	(545)	555
JSC "RAO ES Vostoka"	86	-	401	-	487
JSC "TGC-11 Holding"	45	-	105	-	150
JSC "TGC-9"	100	-	182	-	282
JSC "Kuzbassenergo"	1,003	(2,501)	1,753	-	255
JSC "TGC-13"	74	-	136	-	210
JSC "TGC-2"	56	(56)	-	-	-
JSC "TGC-14"	34	(43)	9	-	-
<b>Total</b>	<b>11,774</b>	<b>(2,600)</b>	<b>26,600</b>	<b>(545)</b>	<b>35,229</b>

\* - Change in fair value of available-for-sale investments is recognised in other comprehensive income.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 9. Available-for-sale investments (continued)

	31 December 2007	Additions	Disposal	Impairment charge	31 December 2008
JSC "Bashkirenergo"	-	7,671	-	(6,276)	1,395
JSC "Mosenergo"	-	7,661	-	(5,956)	1,705
JSC "RusHydro"	-	8,396	-	(5,723)	2,673
JSC "MRSK Holding"	-	2,671	-	(1,638)	1,033
JSC "WGC-6"	-	7,000	-	(5,961)	1,039
JSC "Inter RAO UES"	-	2,150	(30)	(1,769)	351
JSC "WGC-4"	-	2,610	-	(2,082)	528
JSC "TGC-1"	-	1,631	-	(1,454)	177
JSC "WGC-3"	-	1,323	-	(1,124)	199
JSC "WGC-2"	-	1,245	-	(1,069)	176
JSC "Sangtudinskaya GES-1"	3,035	-	-	(1,935)	1,100
JSC "TGC-9"	-	695	-	(595)	100
JSC "Kuzbassenergo"	-	6,676	-	(5,673)	1,003
JSC "TGC-2"	-	416	-	(360)	56
JSC "TGC-14"	-	91	-	(57)	34
JSC "TGC-10"	-	1,325	(1,325)	-	-
JSC "Russian utilities system"	-	1,000	(1,000)	-	-
JSC "TGC-8"	-	912	(912)	-	-
Other investments	-	2,107	(233)	(1,669)	205
<b>Total</b>	<b>3,035</b>	<b>55,580</b>	<b>(3,500)</b>	<b>(43,341)</b>	<b>11,774</b>

#### *JSC "Sangtudinskaya GES-1"*

Available-for-sale investments include shares of JSC "Sangtudinskaya GES-1", which is incorporated and operates in Tajikistan. As at 31 December 2009 and 31 December 2008 the Group's interest in JSC "Sangtudinskaya GES-1" was 14.78%. The controlling shareholder in JSC "Sangtudinskaya GES-1" is the Russian Federation.

In 2008 JSC "Sangtudinskaya GES-1" started operation of three out of four hydro components; the fourth was put into operation in the beginning of 2009. These developments allowed management to estimate future cashflows of the entity and assess the fair value of the investment. The fair value of shares of JSC "Sangtudinskaya GES-1" as at 31 December 2008 was determined using discounted cash flow valuation technique and estimated at RR 1,100 million. An accumulated impairment loss of RR 1,935 million was recorded to this investment in 2008.

As at 31 December 2009 the Group has assessed the fair value of shares of JSC "Sangtudinskaya GES-1" using valuation techniques and determined it at the amount of RR 555 million. Pursuant to this assessment, an additional impairment loss in relation to the investment in JSC "Sangtudinskaya GES-1" was recognised in 2009 amounting to RR 545 million.

#### *JSC "Bashkirenergo" and JSC "Kuzbassenergo"*

As a result of merger with RAO UES the Group acquired a 21.27% share in JSC "Bashkirenergo" and a 20.27% share in JSC "Kuzbassenergo". Management had assessed the level of influence that the Group has on JSC "Bashkirenergo" and JSC "Kuzbassenergo" and determined that it did not amount to significant influence. Consequently, the investments in these entities were classified as available-for-sale investments.

In November 2009 the Company sold 18.98% of the shares of JSC "Kuzbassenergo" to JSC "InterRAO UES" for RR 2,042 million. A gain on the sale of this available-for-sale investment amounted to RR 1,106 million (including recycling of other comprehensive income amounted to RR 1,565 million) and was recognized in the financial statements for the year ended 31 December 2009.

As at 31 December 2009 the share of the voting rights in JSC "Bashkirenergo" was 21.27%.

#### *JSC "TGC-2"*

During the year ended 31 December 2009 the Company has sold the shares of JSC "TGC-2" for RR 454 million. A gain on the sale of this available-for-sale investment amounted to RR 398 million was recognized in the **Note**

## FGC UES Group

### Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009

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#### 9. Available-for-sale investments (continued)

financial statements for the year ended 31 December 2009.

##### *Available-for-sale investments valuation*

The fair value of the available-for-sale financial instruments was determined based on the quoted market prices or, where the quotations were not available, based on valuation techniques. At 31 December 2009 the total carrying value of the investments which fair value was determined based on the quoted market prices was RR 34,674 million (31 December 2008: RR 10,674 million).

##### *Change in fair value of available-for-sale investments*

The Group assessed the available-for-sale investments for impairment as at 31 December 2008 and concluded that an impairment had taken place as there was evidence of a significant and prolonged decline in the fair value of equity instruments below their cost.

The Group recognised the impairment loss for these investments in 2008 financial statements in amount of RR 43,341 million. The partial reversal of this impairment loss that resulted from the increase of market prices during the year ended 31 December 2009 was recognised in other comprehensive income in the amount of RR 25,035 million.

#### Note 10. Promissory notes

	Rating	Rating agency	Effective interest rate, %	Due	31 December 2009	31 December 2008
<b>Long-term promissory notes</b>						
LLC "Energofinance"		Not available	9.1%-10.6%	2014	7,672	-
JSC "System Operator UES"*		Not available	7.0%	2012	542	509
JSC "ROSBANK"	BBB+	Fitch Ratings	12.0%	2015	245	219
JSC "Evrofinance Mosnarbank"	B	Fitch Ratings	12.6%	2014	190	170
JSC "IDGC of Centre and Volga region"*		Not available	12.6%	2011-2020	129	115
JSC "Alfa-Bank"	BB-	Fitch Ratings	12.6%	2015	5	248
JSC "VTB Bank"*	BBB	Fitch Ratings	7.2%-7.3%	2010	-	42,084
LLC "Otkritie Finance"		Not available	9.1%	2015	-	4,042
LLC "FC Otkritie"		Not available	10.0%-10.1%	2015	-	3,294
Other long-term promissory notes			12.6%	2011-2016	169	329
<b>Total long-term promissory notes</b>					<b>8,952</b>	<b>51,010</b>
<b>Short-term promissory notes</b>						
JSC "VTB Bank"*	BBB	Fitch Ratings	7.2%-8.5%	2010	45,083	48,218
JSC "Alfa-Bank"	BB-	Fitch Ratings	12.6%	2010	1,524	845
JSC "System Operator UES"*			7.0%	2010	1,114	3,712
JSC "Gazprombank"	Baa3	Moody's	15.5%	2010	672	-
JSC "Mosenergo"*		Not available		2010	86	-
JSC "MOESK"*		Not available	17.0%	2009	-	3,013
JSB "Alema Bank"		Not available	13.9%	2009	-	1,029
JSC "Ulyanovskenergo"		Not available		2009	-	206
Other short-term promissory notes			0%-12.6%	2010	202	228
<b>Total short-term promissory notes</b>					<b>48,681</b>	<b>57,251</b>

Companies marked with \* above are state-controlled entities (Note 5).

All promissory notes are denominated in Russian roubles.

As at 31 December 2009 and 31 December 2008 the fair value of promissory notes, determined using valuation technique, was RR 57,481 million and RR 102,502 million respectively.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 10. Promissory notes (continued)

In 2009 the promissory notes of LLC "Otkritie Finance" and LLC "FC Otkritie" were exchanged for non-interest bearing notes of LLC "Energo Finance" payable on demand but not earlier than 12 December 2014. An impairment loss in 2009 was recognised in respect of promissory notes of LLC "Energo Finance" in the amount of RR 353 million resulting from the change in the conditions of repayment of obligation after the restructurization.

As at 31 December 2009 and 2008 the movement of provision for impairment of promissory notes was as follows:

	2009	2008
<b>As at 1 January</b>	<b>4,231</b>	-
Impairment charge during the year	353	4,231
Unwind of discount (included in Interest income - Note 25)	(688)	-
<b>As at 31 December</b>	<b>3,896</b>	<b>4,231</b>

### Note 11. Other non-current assets

	31 December 2009	31 December 2008
Long-term accounts receivable	438	398
Long-term bank deposits	-	1,820
<b>Total financial assets</b>	<b>438</b>	<b>2,218</b>
VAT recoverable	312	326
Other non-current assets	209	672
<b>Total</b>	<b>959</b>	<b>3,216</b>

Long-term deposits represented long-term irrevocable deposits within Kit-Finance Investment Bank with a maturity date of 26 November 2010. Interest on these deposits is equal to the current refinance rate of the Central Bank of Russian Federation and is paid on the maturity date. As at 31 December 2009 the refinance rate was 8.75 percent. Kit-Finance Investment Bank is undergoing financial rehabilitation procedures. Management believes that the Group will collect the full value of the deposit upon expiration of the agreement. As at 31 December 2009 Kit-Finance deposit was reclassified to bank deposits (Note 13).

### Note 12. Cash and cash equivalents

	31 December 2009	31 December 2008
Cash at bank and in hand	13,387	7,007
Cash equivalents	20,312	8,678
<b>Total</b>	<b>33,699</b>	<b>15,685</b>

Cash at bank	Rating	Rating agency	31 December 2009	31 December 2008
JSC "Alfa-Bank"	BB- Ba1 BB+	Fitch Ratings Moody's Standart&Poor's	9,664	4,009
JSB "Sberbank"	BBB Baa1	Fitch Ratings Moody's	2,146	1,232
JSB "Gazprombank"	Baa3 BB	Moody's Standart&Poor's	1,111	77
Yugo-Zapadniy bank	BBB	Fitch Ratings	341	213
JSB "Otkrytie bank"	-	-	78	-
JSC "VTB bank"	BBB Baa1 BBB	Fitch Ratings Moody's Standart&Poor's	19	-
JSCB "Agropromcreditbank"	Baa1	Moody's	-	1,009
Other			28	467
<b>Total cash at bank</b>			<b>13,387</b>	<b>7,007</b>

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 12. Cash and cash equivalents (continued)

Cash equivalents include short-term investments in certificates of deposit:

Bank deposits	Interest rate	Rating	Rating agency	31 December 2009	31 December 2008
JSB "Gazprombank"	5.0%-7.5%	Baa3	Moody's	18,777	216
JSB "Sberbank"	7.0%-7.3%	BBB	Fitch Ratings	899	6,912
OJSC "Alfa-Bank"	2.0%-6.8%	Ba1	Moody's	587	-
JSB "Otkrytie bank"	1.6%-8.5%	-	-	-	1,546
Other				49	4
<b>Total bank deposits</b>				<b>20,312</b>	<b>8,678</b>

Although some of the banks have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

There are no deposits denominated in foreign currency included in cash equivalents as at 31 December 2009 (RR 1,216 million as at 31 December 2008).

### Note 13. Bank deposits

	Interest rate	Rating	Rating agency	31 December 2009	31 December 2008
JSB "Gazprombank"	7.8%-11.3%	Baa3	Moody's	5,740	-
LLC "KIT Finance Investment bank"	9.0%-13.0%	Caa2	Moody's	2,017	-
OJSC "Alfa-Bank"	8.3%-9.0%	Ba1	Moody's	1,198	-
JSB "VTB bank"	8.0%-13.5%	Baa1	Moody's	1,197	-
JSB "Sberbank"	10.0%	Baa1	Moody's	30	30
JSB "Otkrytie bank"	7.5%	-	-	5	2,356
<b>Total bank deposits</b>				<b>10,187</b>	<b>2,386</b>

As at 31 December 2008 bank deposits of the Group were disclosed within Other current assets. As at 31 December 2009 bank deposits in amount of RR 10,187 million (as at 31 December 2008 – RR 2,386 million) are included in the Statement of Financial position as a separate line as the Management of the Group considers that separate presentation of bank deposits provides more relevant information for users of these combined and consolidated financial statements. Comparative information was restated to conform with the current year presentation.

Carrying amount of bank deposits approximates its' fair value.

Bank deposits include deposits denominated in foreign currency in amount of RR 5 million as at 31 December 2009 (RR 2,056 million as at 31 December 2008).

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 14. Accounts receivable and prepayments

	31 December 2009	31 December 2008
Trade receivables (Net of allowance for doubtful debtors of RR 4,862 million as at 31 December 2009 and RR 1,455 million as at 31 December 2008)	8,434	6,164
Other receivables (Net of allowance for doubtful debtors of RR 992 million as at 31 December 2009 and RR 703 million as at 31 December 2008)	869	2,636
<b>Total financial assets</b>	<b>9,303</b>	<b>8,800</b>
Advances to suppliers and prepayments (Net of allowance for doubtful debtors of RR 2,162 million as at 31 December 2009 and 427 million as at 31 December 2008)	2,434	2,956
VAT recoverable	9,332	13,712
Tax prepayments	6,902	4,529
VAT related to advances received	1,277	1,079
<b>Total</b>	<b>29,248</b>	<b>31,076</b>

Trade and other receivables are not interest-bearing and are largely due in 30 to 90 days. Given the short period of the trade and other receivables repayment, the fair value of such receivables approximates their book value.

Tax prepayments will be settled against future tax liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. The management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore the recorded value approximates their fair value.

*Change in Tax legislation on value-added tax.* Since 1 January 2009 the Russian legislation on VAT has changed (Note 3) which resulted in a decrease of the outstanding recoverable amount.

The movement of the provision for doubtful debts is shown below:

31 December 2009	Trade receivables	Other receivables	Advances to suppliers and prepayments	Total
<b>As at 1 January</b>	1,455	703	427	2,585
Provision reversal	(108)	(141)	(9)	(258)
Debt written-off	(2)	(94)	-	(96)
Provision accrual	3,517	524	1,744	5,785
<b>As at 31 December</b>	<b>4,862</b>	<b>992</b>	<b>2,162</b>	<b>8,016</b>

31 December 2008	Trade receivables	Other receivables	Advances to suppliers and prepayments	Total
<b>As at 1 January</b>	1,032	-	27	1,059
Provision reversal	(551)	-	(21)	(572)
Debt written-off	(346)	-	-	(346)
Provision accrual	1,320	703	421	2,444
<b>As at 31 December</b>	<b>1,455</b>	<b>703</b>	<b>427</b>	<b>2,585</b>

The provision for doubtful trade debts primarily relates to accounts receivable of JSC "Nurenergo" in respect of electricity supplied to consumers in the Chechen Republic.

As at 31 December 2009 the overdue receivables for which the provision had not been recorded amounted to RR 2,775 million (at 31 December 2008: RR 2,957 million). The ageing analysis is shown below:

	At 31 December 2009	At 31 December 2008
Less than 3 months	1,551	809
3 to 6 months	595	673
6 to 12 months	334	483
1 year to 5 years	295	992
<b>Total</b>	<b>2,775</b>	<b>2,957</b>

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 14. Accounts receivable and prepayments (continued)

The analysis of overdue accounts receivables for which the provision had been recorded as at 31 December 2009 is shown below, gross of allowance for doubtful accounts:

	31 December 2009	31 December 2008
Less than 3 months	1,042	255
3 to 6 months	644	255
6 to 12 months	18	632
1 year to 5 years	3,598	1,016
<b>Total</b>	<b>5,302</b>	<b>2,158</b>

### Note 15. Inventories

	31 December 2009	31 December 2008
Repair materials	2,230	1,307
Spare parts	794	620
Other inventories	247	840
<b>Total</b>	<b>3,271</b>	<b>2,767</b>

The cost of inventories is shown net of an obsolescence provision for RR 39 million as at 31 December 2009 (RR 1 million as at 31 December 2008). At 31 December 2009 and 31 December 2008 the Group had no inventories pledged as security under loan and other agreements.

### Note 16. Equity

**Basis of presentation of movements in equity.** The Group was formed by the combination of certain electricity transmission businesses under common control. Due to the use of the predecessor basis of accounting (Note 2), the majority of the net equity recognised by the Group is based on the carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, subject to effects of subsequent revaluation of property, plant and equipment. Similarly, for the purpose of comparability, the equity of the Group has been presented for comparative periods and as at 1 January 2008 as if the current Group structure has existed from 1 January 2008 (Note 4).

#### Share capital

	Number of shares issued and fully paid		31 December 2009	31 December 2008
	31 December 2009	31 December 2008		
Ordinary shares	1,153,514,196,362	1,153,514,196,362	576,757	576,757

As at 31 December 2009 the authorised share capital comprised 1,346,805,824 thousand ordinary shares with a nominal value of RR 0.5 per share.

**Additional issue of shares.** In August 2007 the Group started the process of placing an additional 114,965,254 thousand ordinary shares with an offering price of RR 0.59 per share. The issue was completed and registered in April 2008. Additional consideration was received in respect of the issue in 2008 in the form of cash amounts, being RR 1,625 million from RAO UES and RR 18,800 million from the Russian Federation. As a result of this issue, which was registered and completed in April 2008, the share capital was increased to RR 238,174 million and additional share premium recognised in the amount of RR 10,347 million.

In January 2009 FGC UES started to place additional 146,500 million shares with a par value RR 0.5 each for the amount of RR 73,250 million. The share issue was completed in January 2010 (Note 32). The amount of RR 40,178 million received for shares issued was included as at 31 December 2009 in the Combined and Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES.

**Issue and conversion of shares transaction.** On 1 July 2008 the Company issued 771,743,118 thousand ordinary shares, which were used for the conversion of the outstanding ordinary and preference shares of 54 transmission companies, 7 interregional transmission companies, JSC "State Holding", JSC "Minority Holding of FGC UES" and RAO UES in connection with the merger of these entities into the Company.

The difference of RR 69,180 million between the nominal value of the shares issued and IFRS carrying values of the subsidiaries together with the fair value of other assets contributed to the Company as a result of the merger, was recorded within the reserves in equity.



## FGC UES Group

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### Note 16. Equity (continued)

**Treasury shares.** Treasury shares as at 31 December 2009 and 31 December 2008 represent 13,727,165 thousand of ordinary shares.

	31 December 2009	31 December 2008
<b>As at 1 January</b>	<b>6,864</b>	-
Treasury shares acquired as a result of reorganisation	-	6,864
<b>As at 31 December</b>	<b>6,864</b>	<b>6,864</b>

Treasury shares were received by the Group during the reorganisation process in the form of a legal merger with RAO UES in 2008. The Company's shares are held by its subsidiary, LLC "Index Energetiki".

Treasury shares received during 2008 are accounted for at their nominal value of RR 0.5 per share.

**Reserves.** Reserves include Revaluation reserve for property, plant and equipment and available-for-sale investments, Merger reserve and Foreign currency translation reserve.

Based on the application of predecessor accounting (Note 2), the difference between the value of the share capital issued, the IFRS carrying values of the contributed assets and the minority interest has been recorded as a merger reserve within equity in amount of RR 56,891 million.

The translation reserve, relating to the exchange differences arising on translation of the net assets of foreign associate, as at 31 December 2009 was credit of RR 56 million (31 December 2008: credit of RR 47 million) and is included in other reserves.

Reserves comprise the following:

	31 December 2009	31 December 2008
Revaluation reserve, net of tax, for:		
- for property, plant and equipment (Note 6)	291,700	53,984
- for property, plant and equipment of associates (Note 8)	10,749	-
- available-for-sale investments (Note 9)	21,919	-
Merger reserve	(56,891)	(56,891)
Foreign currency translation reserve	56	47
<b>Total</b>	<b>267,533</b>	<b>(2,860)</b>

Reserves for the year ended 31 December 2009 (net of tax):

	Revaluation reserve for:			Foreign currency translation reserve	Total reserves
	property, plant and equipment (Note 6, 8)	available-for-sale investments (Note 9)	Merger reserve		
<b>As at 1 January 2009</b>	<b>53,984</b>	-	<b>(56,891)</b>	<b>47</b>	<b>(2,860)</b>
Change in revaluation reserve for property, plant and equipment	237,716	-	-	-	<b>237,716</b>
Change in revaluation reserve for property, plant and equipment of associates (Note 8)	10,749	-	-	-	<b>10,749</b>
Foreign currency translation difference (Note 8)	-	-	-	9	<b>9</b>
Gain on change of fair value of available-for-sale investments	-	23,171	-	-	<b>23,171</b>
Realised revaluation reserve for available-for-sale investments	-	(1,252)	-	-	<b>(1,252)</b>
<b>As at 31 December 2009</b>	<b>302,449</b>	<b>21,919</b>	<b>(56,891)</b>	<b>56</b>	<b>267,533</b>

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### Note 16. Equity (continued)

Reserves for the year ended 31 December 2008:

	Revaluation reserve for property, plant and equipment (Note 6)	Merger reserve	Foreign currency translation reserve	Total reserves
<b>As at 1 January 2008</b>	<b>43,740</b>	<b>(5,917)</b>	<b>(14)</b>	<b>37,809</b>
Foreign currency translation difference (Note 8)	-	-	61	61
Change in tax rate related to revaluation of property, plant and equipment	2,710	-	-	2,710
Conversion of shares	7,534	(50,974)	-	(43,440)
<b>As at 31 December 2008</b>	<b>53,984</b>	<b>(56,891)</b>	<b>47</b>	<b>(2,860)</b>

**Dividends.** The annual statutory accounts of the parent company, FGC UES, form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2009, the statutory net loss of the parent company, FGC UES, as reported in the published statutory financial statements for the year ended 31 December 2009, was RR 59,866 million (for the year ended 31 December 2008 net profit was RR 4,465 million). At the Annual General Meeting in June 2009 and 2010 the decision was approved not to declare dividends for the years ended 31 December 2008 and 31 December 2009. A dividend was declared in June 2008 in respect of the year ended 31 December 2007 of RR 0.0008 per ordinary share for a total amount of RR 380 million.

### Note 17. Profit tax

Profit tax expense comprises the following:

	The year ended 31 December 2009	The year ended 31 December 2008
Current profit tax charge	(5,158)	(3,175)
Deferred profit tax credit	18,505	14,418
<b>Total profit tax credit</b>	<b>13,347</b>	<b>11,243</b>

During the year ended 31 December 2009 most entities of the Group were subject to tax rates of 20 percent on taxable profit (during the year ended 31 December 2008: 24 percent on taxable profit).

In accordance with Russian tax legislation, tax losses in different Group companies may not be offset against taxable profits of other Group companies. Accordingly, tax may be accrued even where there is a net consolidated tax loss.

From 1 January 2009 the income tax rate for Russian companies was reduced from 24 to 20 percent. This rate of 20 percent has been used for the calculation of the deferred tax assets and liabilities as at 31 December 2009 and 31 December 2008. Net profit before profit tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	The year ended 31 December 2009	The year ended 31 December 2008
<b>Loss before profit tax</b>	<b>(74,792)</b>	<b>(35,080)</b>
Theoretical profit tax charge at statutory tax rate of 20 (24 for the year ended 31 December 2008) percent	14,958	8,419
Tax effect of items which are not deductible or assessable for taxation purposes	127	(808)
Effect of change in tax rate	-	4,646
Non-recognised deferred tax asset	(1,738)	(1,014)
<b>Total profit tax credit</b>	<b>13,347</b>	<b>11,243</b>

**Deferred profit tax.** Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Deferred profit tax assets and liabilities are measured at 20 percent at 31 December 2009 and 31 December 2008, the rates expected to be applicable when the asset or liability will reverse.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 17. Profit tax (continued)

*Deferred profit tax assets and liabilities for the year ended 31 December 2009:*

	31 December 2009	Movements for the year		31 December 2008
		Recognised in profit or loss	Recognised in other comprehensive income	
<b>Deferred profit tax liabilities</b>				
Property, plant and equipment	70,620	(18,265)	59,572	29,313
Investments in associates	11,513	45	2,678	8,790
Available-for-sale investments	3,263	(353)	3,116	500
Accounts receivable and prepayments	6	6	-	-
Other deferred tax liabilities	31	(51)	-	82
<b>Total deferred profit tax liabilities</b>	<b>85,433</b>	<b>(18,618)</b>	<b>65,366</b>	<b>38,685</b>
<b>Deferred profit tax assets</b>				
Property, plant and equipment	(1,161)	(345)	-	(816)
Available-for-sale investments	-	-	1,890	(1,890)
Long-term promissory notes	(1,120)	(274)	-	(846)
Accounts receivable and prepayments	(952)	(86)	-	(866)
Retirement benefit obligation	(321)	(159)	-	(162)
Accounts payable and accruals	(14)	31	-	(45)
Other deferred tax assets	(287)	35	-	(322)
Tax losses	(1,335)	(827)	-	(508)
Unrecognised deferred tax assets	3,397	1,738	(1,890)	3,549
<b>Total deferred profit tax assets</b>	<b>(1,793)</b>	<b>113</b>	<b>-</b>	<b>(1,906)</b>
<b>Deferred profit tax liabilities, net</b>	<b>83,640</b>	<b>(18,505)</b>	<b>65,366</b>	<b>36,779</b>

During the year ended 31 December 2009 the increase in fair value of the available-for-sale investments gave the rise to a partial reduction in the previously unrecognised deferred tax asset in the amount of RR 1,890 million.

Current portion of net deferred tax liabilities in the amount of RR 2,221 million represents the amount of deferred tax liabilities to be recovered during the year ended 31 December 2010.

The Group has not recognised deferred tax assets as at 31 December 2009 in respect of tax losses carried forward of RR 6,677 million (31 December 2008: RR 2,543 million at JSC "Nurenergo") at companies in the table below.

	31 December 2009	31 December 2008
JSC "Nurenergo"	4,614	2,543
JSC "Mobile gas-turbine electricity plants"	1,533	-
JSC "The principle electricity transmission service company of Unified National Electrical Network"	244	-
Others	286	-
<b>Total tax losses carried forward</b>	<b>6,677</b>	<b>2,543</b>

The tax losses expire in 10 years after their origination. In particular, these tax losses expire during 2012-2019, including nil during the year 2010, RR 969 million with term from 2 to 5 years (during 2012-2014) and RR 5,708 million with term over 5 years (during 2015-2019).

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Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 17. Profit tax (continued)

*Deferred profit tax assets and liabilities for the year ended 31 December 2008:*

	Movements for the year				31 December 2007
	31 December 2008	Recognised in profit or loss	Recognised in other comprehensive income	Share Conversion result – recognised directly in equity	
<b>Deferred profit tax liabilities</b>					
Property, plant and equipment	29,313	(2,993)	(2,710)	-	35,016
Investments in associates	8,790	(2,452)	84	11,158	-
Available-for-sale investments	500	(8,941)	-	9,441	-
Accounts receivable and prepayments	-	(208)	-	-	208
Other deferred tax liabilities	82	(49)	-	-	131
<b>Total deferred profit tax liabilities</b>	<b>38,685</b>	<b>(14,643)</b>	<b>(2,626)</b>	<b>20,599</b>	<b>35,355</b>
<b>Deferred profit tax assets</b>					
Property, plant and equipment	(816)	418	-	-	(1,234)
Available-for-sale investments	(1,890)	(1,890)	-	-	-
Long-term promissory notes	(846)	(846)	-	-	-
Accounts receivable and prepayments	(866)	287	-	-	(1,153)
Retirement benefit obligation	(162)	206	-	-	(368)
Accounts payable and accruals	(45)	783	-	-	(828)
Other deferred tax assets	(322)	285	-	(341)	(266)
Tax losses	(508)	(32)	-	-	(476)
Unrecognised deferred tax assets	3,549	1,014	-	-	2,535
<b>Total deferred profit tax assets</b>	<b>(1,906)</b>	<b>225</b>	<b>-</b>	<b>(341)</b>	<b>(1,790)</b>
<b>Deferred profit tax liabilities, net</b>	<b>36,779</b>	<b>(14,418)</b>	<b>(2,626)</b>	<b>20,258</b>	<b>33,565</b>

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 18. Non-current debt

	Currency	Effective interest rate	Due	31 December 2009	31 December 2008
Certified interest-bearing non-convertible bearer bonds, Issue 02	RR	8.25%	22.06.2010	7,000	7,000
Certified interest-bearing non-convertible bearer bonds, Issue 04	RR	7.30%	06.10.2011	6,000	6,000
Certified interest-bearing non-convertible bearer bonds, Issue 05	RR	7.20%	01.12.2009	-	4,980
Loan from European Bank for Reconstruction and Development (EBRD)	RR	MosPrime +2.15%	14.04.2009	-	5,000
<b>Total non-current debt</b>				<b>13,000</b>	<b>22,980</b>
Less: current portion of non-current bonds				(7,000)	(4,980)
Less: current portion of EBRD loan				-	(682)
<b>Non-current debt</b>				<b>6,000</b>	<b>17,318</b>

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans and the current market rate for floating rate loans.

At 31 December 2009 the estimated fair value of total non-current debts (including the current portion) was RR 12,874 million (31 December 2008: RR 21,130 million), which is estimated using the market prices for quoted FGC UES bonds as at 31 December 2009.

Since 2004 the Group issued certified interest-bearing non-convertible bearer coupon bonds for the total nominal value of RR 30,000 million. The interest was defined at the time of the issue and is fixed for the maturity period. The coupon is payable semi-annually.

### Note 19. Retirement benefit obligations

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Net liability in the Statement of Financial Position as at 1 January</b>	<b>2,933</b>	<b>2,608</b>
Net periodical cost	821	648
Benefits paid	(315)	(323)
<b>Net liability in the Statement of Financial Position as at 31 December</b>	<b>3,439</b>	<b>2,933</b>

The Group's post-employment benefits policy includes the employee pension scheme and various post-employment, retirement and jubilee payments. The post-employment and retirement benefit system is a defined benefit program as part of which every participating employee receives benefits calculated in accordance with certain formula or rules. The program's core element is the corporate pension scheme implemented by the Group in cooperation with the Non-State Pension Fund of Electric Power Industry (NPFE).

The Group also pays various long-term post-employment benefits, including lump sum benefits in case of death of employees or former employees receiving pensions, lump sum benefits upon retirement and in connection with jubilees.

Additionally, financial aid in the form of defined benefits is provided to former employees who have state, industry or corporate awards. Such financial aid is provided both to employees entitled and not entitled to non-state pensions.

The most recent actuarial valuation was performed as at 31 December 2008.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2009 and 31 December 2008.

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Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 19. Retirement benefit obligations (continued)

The amounts recognised in the Statement of Financial Position are determined as follows:

	31 December 2009	31 December 2008
Total present value of defined benefit obligations	4,544	4,262
Net actuarial gains not recognised in the Statement of financial position	(396)	(464)
Unrecognised past service cost	(709)	(865)
<b>Liability recognised in the Statement of Financial Position</b>	<b>3,439</b>	<b>2,933</b>

The amounts recognised in profit or loss are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Current service cost	283	258
Interest on obligation	382	261
Actuarial gains and losses	1	(19)
Recognised past service cost	155	148
<b>Total</b>	<b>821</b>	<b>648</b>

Changes in the present value of the Group's retirement benefit obligation are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Defined benefit obligations at 1 January</b>	<b>4,262</b>	<b>3,841</b>
Benefits paid by the plan	(315)	(323)
Current service costs	283	258
Interest on obligation	382	261
Actuarial gains	(68)	129
Past service cost	-	96
<b>Present value of defined benefit obligations at 31 December</b>	<b>4,544</b>	<b>4,262</b>

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) *Financial assumptions*

	31 December 2009	31 December 2008
Discount rate	9.0%	9.0%
Inflation rate	6.5%	7.0%
Future salary increases	7.5%	8.0%
Future pension increase	6.5%	7.0%

(ii) *Demographic assumptions*

*Withdrawal rates assumption* is as follows: expected staff turnover rates depends on past service - around 10% for employees with 2 years of service going down to 5% for employees with 10 or more years of service

*Retirement ages assumption* is as follows: average retirement ages are 60.5 years for men and 56 years for women. Similar retirement age assumption was used at 31 December 2008.

*Mortality table*: Russian population mortality table 1998.

The expected contributions under voluntary pension programs in 2010 are expected in the amount of RR 461 million.

Experience adjustments on benefit obligation are as follows:

	31 December 2009	31 December 2008
Total present value of defined benefit obligations	4,544	4,262
Deficit in plan	(4,544)	(4,262)
Experience adjustment on defined benefit obligations	323	808

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 20. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2009	31 December 2008
Current portion of non-current bonds	7.2%-8.3%	7,000	4,980
IDGC Holding	14.1%	505	505
JSB Alfa Bank	14.0%	-	10,000
European Bank for Reconstruction and Development	MosPrime +2.2%	-	682
Other current debt		40	44
<b>Total</b>		<b>7,545</b>	<b>16,211</b>

As at 31 December 2009 the Group has no undrawn committed financing facilities which may be used for the general purposes of the Group (31 December 2008: RR 5,000 million).

### Note 21. Accounts payable and accrued charges

	31 December 2009	31 December 2008
Trade payables	11,750	8,960
Accounts payable to construction companies	9,377	8,771
<b>Total financial liabilities</b>	<b>21,127</b>	<b>17,731</b>
Accrued liabilities and other creditors	4,443	6,083
Advances received	7,368	7,642
<b>Total</b>	<b>32,938</b>	<b>31,456</b>

### Note 22. Other taxes payable

	31 December 2009	31 December 2008
Property tax	432	219
Value added tax	335	508
Employee taxes	35	49
Other taxes	334	205
<b>Total</b>	<b>1,136</b>	<b>981</b>

### Note 23. Revenues

	Year ended 31 December 2009	Year ended 31 December 2008
Transmission fee	80,242	66,229
Electricity sales	3,348	2,516
Connection services	3,053	49
Grids repair and maintenance services	937	457
<b>Total revenues</b>	<b>87,580</b>	<b>69,251</b>

Other operating income primarily includes income from non-core activities.

	Year ended 31 December 2009	Year ended 31 December 2008
Design works	1,033	357
Research and development services	792	809
Communication services	550	553
Rental income	235	455
Equipment installation income	-	1,605
Other income	1,677	2,808
<b>Total other operating income</b>	<b>4,287</b>	<b>6,587</b>

## FGC UES Group

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### Note 24. Operating expenses

	Year ended 31 December 2009	Year ended 31 December 2008
Depreciation of property, plant and equipment	16,740	16,216
Employee benefit expenses and payroll taxes	15,904	13,680
Purchased electricity	15,431	12,924
Repair and maintenance services:	9,029	7,955
<i>(including materials for repair)</i>	<i>2,096</i>	<i>1,592</i>
Accrual of allowance for doubtful debtors	5,527	1,872
Rent	1,435	1,575
Loss on disposal of property, plan and equipment	1,413	1,488
Consulting, legal and auditing services	1,293	1,025
Business trips and transportation expenses	1,251	996
Insurance	1,153	1,211
Amortisation of intangible assets	930	451
Security services	917	763
Information system maintenance	882	815
Other materials	823	1,220
Taxes, other than on income	664	364
Fuel	490	479
Communication service	489	495
Research and development	447	358
Electricity transit via foreign countries	422	272
Cost of equipment installed	-	1,347
Other	2,976	2,669
<b>Total</b>	<b>78,216</b>	<b>68,175</b>

FGC UES purchases electricity to compensate electricity losses which occur during transmission.

Employee benefit expenses and payroll taxes include expenses on voluntary pension programs and long-term compensation payments.

	Year ended 31 December 2009	Year ended 31 December 2008
Wages and salaries	12,803	10,819
Payroll taxes	2,280	2,213
Pension costs - defined benefit plans	821	648
<b>Total</b>	<b>15,904</b>	<b>13,680</b>

Rent expense principally represent short-term operating lease, including rent of land (Note 6) and office facilities.

### Note 25. Finance income

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	9,358	8,431
Foreign exchange difference	397	52
Dividends	245	-
<b>Total finance income</b>	<b>10,000</b>	<b>8,483</b>



## FGC UES Group

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### Note 26. Finance costs

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense	1,928	2,777
Impairment of promissory notes	353	4,297
Foreign currency exchange differences	-	45
<b>Total finance cost</b>	<b>2,281</b>	<b>7,119</b>
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(797)	-
<b>Total finance cost recognised in profit or loss</b>	<b>1,484</b>	<b>7,119</b>

An impairment loss was recognised in 2008 in respect of the promissory notes of JSC “Otkritie Finance” and JSC “FC Otkritie”. An impairment loss was recognised in 2009 in respect of the promissory notes of JSC “Energo Finance” in the amount of RR 353 million (Note 10).

### Note 27. Earnings per ordinary share for profit attributable to the shareholders of JSC “FGC UES”

	For the year ended 31 December 2009	For the year ended 31 December 2008
Weighted average number of ordinary shares (millions of shares)	1,153,514	776,157
Loss attributable to the shareholders of FGC UES (millions of RR)	(61,196)	(23,784)
<b>Weighted average loss per share – basic and diluted (in RR)</b>	<b>(0.053)</b>	<b>(0.031)</b>

The weighted average number of shares was adjusted to reflect the effect of transactions under common control for shares registered after end of the reporting period.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

### Note 28. Contingencies, commitments and operating risks

**Political environment.** The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by the political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russian Federation.

**Insurance.** The Group held limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed to those risks for which it does not have insurance.

**Legal proceedings.** In the normal course of business the Group entities may be a party to certain legal proceedings. In the opinion of management, currently there are no existing legal proceedings or claims outstanding or final dispositions which will have a material adverse effect on the financial position of the Group.

Being a legal successor of RAO UES, at 31 December 2009 the Company was engaged in litigation proceedings in relation to invalidation of the contract concluded by RAO UES to sell shares of JSC “TGC-2” and repayment of cash in amount of RR 9,308 million. No provision is made in these combined and consolidated financial statements for any potential loss as the Group’s management believes that it is not likely that any significant loss will eventuate.

**Tax contingency.** Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained, including the uncertainty of deductibility of certain types of costs for taxation purposes. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these Financial Statements. The Group estimates that possible tax claims in respect of certain open tax positions of the Group companies primarily related to

## FGC UES Group

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### Note 28. Contingencies, commitments and operating risks (continued)

deductibility of certain types of costs for taxation purposes could amount to as much as RR 3,367 million if the tax positions would be successfully challenged (as at 31 December 2008: RR 2,488 million).

In addition, tax and other legislation do not address all the specific aspects of the Group's reorganisation related to reforming of the electric utilities industry. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

**Environmental matters.** The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage, other than any amounts which have been accrued in the accompanying financial statements.

**Capital commitments related to construction of property, plant and equipment.** Future capital expenditures for which contracts have been signed amount to RR 208,568 million and RR 214,555 million at 31 December 2009 and 31 December 2008, respectively.

**Obligations under guarantee contracts.** Guarantee contracts are irrevocable assurances that the Group will make payments in the event of the other party's default on its obligations. At 31 December 2009 the Group did not have any guarantee contracts outstanding. At 31 December 2008 the Group guaranteed the fulfilment of JSC Bureyskaya GES obligations under the promissory note with the Ministry of Railways of Russian Federation in the amount of RR 1,144 million.

### Note 29. Financial instruments and financial risks

**Financial risk factors.** The Group's ordinary financial and business activities expose it to a variety of financial risks, including but not limited to the following: market risk (foreign exchange risk, interest rate risks related to changes in the fair value of the interest rate and the cash flow interest rate, and price risk), credit risk, and liquidity risk. Such risks give rise to the fluctuations of profit, reserves and equity and cash flows from one period to another. The Group's financial management policy aims to minimize or eliminate possible negative consequences of the risks for the financial results of the Group. From the beginning of operations, the Group has not entered into agreements on derivative financial instruments. However, the Group could use derivative financial instruments from time to time for such purposes as part of its risk management strategy.

Financial instruments by categories:

31 December 2009	Loans and receivables	Investments available for sale	Other financial liabilities	Total
<b>Financial assets</b>				
Investments available for sale (Note 9)	-	35,229	-	35,229
Other non-current assets (Note 11)	438	-	-	438
Accounts receivable (Note 14)	9,303	-	-	9,303
Long-term promissory notes (Note 10)	8,952	-	-	8,952
Short-term promissory notes (Note 10)	48,681	-	-	48,681
Bank deposits (Note 13)	10,187	-	-	10,187
Cash and cash equivalents (Note 12)	33,699	-	-	33,699
Other current assets	47	-	-	47
<b>Total financial assets</b>	<b>111,307</b>	<b>35,229</b>	<b>-</b>	<b>146,536</b>
<b>Financial liabilities</b>				
Non-current debt (Note 18)	-	-	6,000	6,000
Current debt and current portion of non-current debt (Note 20)	-	-	7,545	7,545
Trade payables (Note 21)	-	-	11,750	11,750
Account payables to construction companies (Note 21)	-	-	9,377	9,377
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>34,672</b>	<b>34,672</b>

**Note 29. Financial instruments and financial risks (continued)**

<b>31 December 2008</b>	<b>Loans and receivables</b>	<b>Assets available for sale</b>	<b>Other financial liabilities</b>	<b>Total</b>
<b>Financial Assets</b>				
Investments available for sale (Note 9)	-	11,774	-	11,774
Other non-current assets (Note 11)	2,218	-	-	2,218
Accounts receivable (Note 14)	8,800	-	-	8,800
Long-term promissory notes (Note 10)	51,010	-	-	51,010
Short-term promissory notes (Note 10)	57,251	-	-	57,251
Bank deposits (Note 13)	2,386	-	-	2,386
Cash and cash equivalents (Note 12)	15,685	-	-	15,685
Other current assets	27	-	-	27
<b>Total financial assets</b>	<b>137,377</b>	<b>11,774</b>	<b>-</b>	<b>149,151</b>
<b>Financial Liabilities</b>				
Non-current debt (Note 18)	-	-	17,318	17,318
Current debt and current portion of non-current debt (Note 20)	-	-	16,211	16,211
Trade payables (Note 21)	-	-	8,960	8,960
Account payables to construction companies (Note 21)	-	-	8,771	8,771
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>51,260</b>	<b>51,260</b>

**(a) Market risk**

**(i) Foreign exchange risk.** The Group operates within the Russian Federation. The major part of the Group's purchases is denominated in Russian Roubles. Therefore, the Group's exposure to foreign exchange risk is insignificant.

**(ii) Interest rate risk.** The Group's operating profits and cash flows from operating activity are not largely dependent on the changes in market interest rates. As at 31 December 2009 the interest rates on the borrowing are fixed. As at 31 December 2008 the Group was exposed to interest rate risk in connection with the market value of the loan issued by the European Bank for Reconstruction and Development to which a variable interest rate applies (Note 18). The loan from EBRD was repaid during the year ended 31 December 2009 so the Group has limited exposure to interest rate risk as of the reporting date.

The Group's interest-bearing assets consist of certificates of deposit amounting to RR 30,499 million (as at 31 December 2008 – RR 12,884 million) placed at fixed rate and promissory notes amounting to RR 57,633 million (as at 31 December 2008 – RR 108,261 million).

For the purpose of interest risk reduction the Group makes credit market monitoring to identify favourable credit conditions.

**(iii) Price risk.** Equity price risk arises from available-for-sale investments received during the share conversion process. Management of the Group monitors its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are taken by the management of the Group. The primary goal of the Group's investment strategy is to maximise investment returns in order to meet partially the Group's investment programme needs. Transactions in equity products are monitored and authorised by the Group treasury. The total amount of investments available-for-sale exposed to the market risk equals RR 34,674 million. At 31 December 2009, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group's revaluation reserve in equity would increase (decrease) by RR 3,467 million and profit before tax would not be affected. At 31 December 2008, if equity prices at that date had been 60% higher (lower) with all other variables held constant, the Group's revaluation reserve in equity would increase by RR 6,405 million (loss before tax would increase by RR 6,405 million).

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### Note 29. Financial instruments and financial risks (continued)

#### (b) Credit risk.

The amounts exposed to credit risk are as follows:

	Other non-current assets (Note 11)	Accounts receivable (Note 14)	Long-term promissory notes (Note 10)	Short-term promissory notes (Note 10)	Bank deposits (Note 13)	Other current assets	Cash and cash equivalents (Note 12)
<b>31 December 2009</b>							
Not overdue, not impaired	438	6,528	1,280	48,681	10,187	47	33,699
Not overdue, but impaired:	-	-	7,672	-	-	-	-
- gross amount	-	552	11,568	47	-	-	-
- less impairment provision	-	(552)	(3,896)	(47)	-	-	-
Overdue, but not impaired	-	2,775	-	-	-	-	-
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	5,302	-	-	-	19	-
- less impairment provision	-	(5,302)	-	-	-	(19)	-
<b>Total amount</b>	<b>438</b>	<b>9,303</b>	<b>8,952</b>	<b>48,681</b>	<b>10,187</b>	<b>47</b>	<b>33,699</b>
<b>31 December 2008</b>							
Not overdue, not impaired	2,218	5,843	43,673	57,251	2,386	27	15,685
Not overdue, but impaired:	-	-	7,337	-	-	-	-
- gross amount	-	-	11,568	47	-	-	-
- less impairment provision	-	-	(4,231)	(47)	-	-	-
Overdue, but not impaired	-	2,957	-	-	-	-	-
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	2,158	-	-	-	19	-
- less impairment provision	-	(2,158)	-	-	-	(19)	-
<b>Total amount</b>	<b>2,218</b>	<b>8,800</b>	<b>51,010</b>	<b>57,251</b>	<b>2,386</b>	<b>27</b>	<b>15,685</b>

As at 31 December 2009 the amount of financial assets, which are exposed to credit risk, is RR 111,307 million (as at 31 December 2008: RR 137,377 million). Although collection of receivables could be influenced by economic factors, management of the Group believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

The Group's trade debtors are quite homogenous as regards their credit quality and concentration of credit risk. They are primarily comprised of large, reputable customers, most of which are controlled by the State (principally - former RAO UES subsidiaries). Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low.

Credit risk is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. Although some of the banks and companies have no international credit rating, management believes that they are reliable counterparties with a stable position on the Russian market.

There are no credit risk related to any granted guarantees as at 31 December 2009 (as at 31 December 2008 the maximum credit risk related to granted guarantees is exposed to RR 1,144 million) (Note 28).

The main credit risks of the Group are concentrated within the balances of promissory notes. The detailed information on promissory notes is presented in Note 10.

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 29. Financial instruments and financial risks (continued)

(c) **Liquidity risk.** Liquidity risk is managed at the Group level and includes maintaining the appropriate volume of monetary funds, conservative approach to excess liquidity management, and access to financial resources by securing credit facilities and limiting the concentrations of cash in banks. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>At 31 December 2009</b>					
Non-current and current debt and interest payable	8,313	6,379	-	-	14,692
Trade payables (Note 21)	11,750	-	-	-	11,750
Account payables to construction companies (Note 21)	9,377	-	-	-	9,377
<b>Total as at 31 December 2009</b>	<b>29,440</b>	<b>6,379</b>	<b>-</b>	<b>-</b>	<b>35,819</b>
<b>At 31 December 2008</b>					
Non-current and current debt and interest payable	18,442	14,547	6,252	778	40,019
Trade payables (Note 21)	8,960	-	-	-	8,960
Account payables to construction companies (Note 21)	8,771	-	-	-	8,771
<b>Total as at 31 December 2008</b>	<b>36,173</b>	<b>14,547</b>	<b>6,252</b>	<b>778</b>	<b>57,750</b>

(d) **Fair value.** Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The carrying value less impairment provision of trade receivables is assumed to approximate their fair value due to the short-term nature of the receivables. The fair value of financial liabilities for disclosure in the financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for Group for similar financial instruments.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	31 December 2009	31 December 2008
Level 1	34,674	10,674
Level 2	-	-
Level 3	555	1,100
<b>Total</b>	<b>35,229</b>	<b>11,774</b>

The financial instruments of the Group carried at fair value represent available-for-sale investments (Note 9).

### Note 30. Capital risk management

The Group's management of the capital of its entities aims to comply with the capital requirements established by the legislation of the Russian Federation for joint stock companies, in particular:

- share capital can not be lower than RR 100 thousand;
- in case the share capital of an entity is greater than statutory net assets of the entity, such entity must reduce its share capital to the value not exceeding its statutory net assets;
- in case the minimum allowed share capital exceeds the entity's statutory net assets, such entity is subject for liquidation.

At 31 December 2009 the Group was in compliance with the above share capital requirements.

The Group's capital management objectives are to ensure that its operations be continued at a profit for the shareholders and with benefits for other stakeholders, and to maintain the optimal capital structure with a view to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group can adjust the dividends paid to the shareholders or their contributions to the authorized capital by issuing new shares or by selling assets to reduce debts.

The Group monitors capital ratios, including the gearing ratio, calculated on the basis of figures of financial statements prepared under the Russian Standards on Accounting (RSA). The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. At 31 December 2009 the Company's gearing ratio calculated under RSA was 0.02 (at 31 December 2008: 0.05).

### Note 31. Segment information

Under IFRS 8 operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (further "CODM") in deciding how to allocate resources and in assessing performance. The Board of Directors of the Company has been determined as the CODM.

The Group has a single primary activity i.e. the provision of electricity transmission services within the Russian Federation which is represented as Transmission Segment comprising JSC FGC UES, its' maintenance (service) subsidiaries, LLC Index Energetiki, JSC "The Kuban Trunk Grids" and JSC "The Tomsk Trunk Grids".

FGC UES itself maintains the high voltage electricity transmission network.

Maintenance (service) subsidiaries – JSC "The principle electricity transmission service company of Unified National Electrical Network" and JSC "Specialized electricity transmission service company of Unified National Electrical Network" - are engaged in maintenance services (repair and restoration) for the Unified National Electric Network.

Assets and liabilities of LLC Index Energetiki acquired as the result of RAO UES liquidation are held only for the purpose of implementation of FGC UES investment program through sale in the appropriate market situation. As this division of financial assets and liabilities between FGC UES and LLC Index Energetiki is only of legal nature and the management of the Group analyses information on financial assets of these two entities simultaneously, the operations and balances relating to LLC Index Energetiki are included within the Transmission Segment.

The Board of Directors of the Company does not evaluate financial information of other components of the Group to allocate resources or assess performance and does not determine these components as segments. The key indicator of the transmission segment performance is return on equity ratio (ROE). It is calculated based on statutory financial statements prepared according to RSA as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by CODM is net profit of segment based on the statutory financial statements prepared according to RSA. The Other information provided to CODM is also based on statutory financial statements prepared according to RSA.

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### Note 31. Segment information (continued)

	Transmission segment – based on statutory financial statements prepared according to RSA	
	31 December 2009	31 December 2008
Revenue from external customers	86,555	70,924
Intercompany revenue	302	249
<b>Total revenue</b>	<b>86,857</b>	<b>71,173</b>
<b>Depreciation and amortization</b>	<b>23,089</b>	<b>22,263</b>
<b>Interest income</b>	<b>7,512</b>	<b>6,904</b>
<b>Interest expenses</b>	<b>1,812</b>	<b>2,462</b>
<b>Current profit tax</b>	<b>5,021</b>	<b>4,141</b>
<b>(Loss) / profit for the period</b>	<b>(73,128)</b>	<b>6,341</b>
<b>Total reportable segment assets</b>	<b>705,904</b>	<b>777,206</b>
<b>Total reportable segment liabilities</b>	<b>135,007</b>	<b>106,098</b>
<b>Capital expenditure</b>	<b>87,708</b>	<b>79,693</b>

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Total revenues from segment (RSA)</b>	<b>86,857</b>	<b>71,173</b>
Reclassification between revenue and other income	(2,323)	(1,384)
Reclassification between revenue and financial income	-	(2,919)
Other adjustments	-	114
Non-segmental revenue	3,348	2,516
Elimination of intercompany revenue	(302)	(249)
<b>Total revenue (IFRS)</b>	<b>87,580</b>	<b>69,251</b>

## FGC UES Group

Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 31. Segment information (continued)

	Year ended 31 December 2009	Year ended 31 December 2008
<b>(Loss) / profit for the period (RSA)</b>	(73,128)	6,341
Reversal of bad debts provision recognised under IFRS in previous periods	(17,593)	(377)
Impairment of property, plant and equipment not recognized under RSA	(2,099)	-
Reversal of impairment provision for property, plant and equipment	9,642	-
Revaluation loss on property, plant and equipment	(102,395)	-
Adjustment on disposal of available-for-sale investments	8,153	(1,838)
Adjustment of property, plant and equipment to IFRS cost	6,348	4,769
Pension liabilities adjustment	(555)	(295)
Recovery of investments reserves under RSA	78,825	2,584
Adjustment of Treasury shares	22,762	-
Discounting of promissory notes	(557)	1,666
Capitalized interest	797	-
Write-off / (reversal) of expenses recognized under RSA	522	660
Impairment of available-for-sale investments and associates	(2,018)	(45,107)
Impairment of promissory notes	(353)	(4,250)
Write-off of construction-in-progress	(104)	(298)
Unrealised profit adjustment	(165)	(701)
Share of result of associates	1,893	(1,372)
Deferred tax adjustments	14,401	15,222
Other adjustments	362	410
Non-segmental other operating loss	(6,183)	(1,251)
<b>Loss for the period (IFRS)</b>	<b>(61,445)</b>	<b>(23,837)</b>



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Notes to the Combined and Consolidated Financial Statements for the year ended 31 December 2009  
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### Note 31. Segment information (continued)

	31 December 2009	31 December 2008
<b>Total reportable segment assets (RSA)</b>	<b>705,904</b>	<b>777,206</b>
Adjustment of property, plant and equipment to IFRS cost	130,385	124,038
Interest capitalized	797	-
Reversal of RSA revaluation of property, plant and equipment	(28,066)	(21,182)
Impairment of advances for construction-in-progress	(1,928)	-
Adjustment of VAT recoverable according to IFRS	(3,084)	-
Revaluation of property, plant and equipment	204,003	-
Write-off of construction-in-progress	(402)	(298)
Reversal of RSA impairment of investments in subsidiaries	5,580	4,557
Reversal of RSA impairment of investments in associates	62,453	-
Adjustment of Investments in associates under equity method of accounting	(36,713)	(50,378)
Impairment of associates	(3,240)	(1,766)
Reversal of impairment of promissory notes and other short-term investments	15,165	501
Deferred tax adjustment	(5,311)	(49)
Treasury shares adjustment	(4,379)	(27,141)
Discounting of promissory notes	(4,652)	(4,041)
Write-off and impairment of accounts receivable	2,176	597
Write-off of intangible assets	(1,271)	(513)
Adjustment on available-for-sale investments	655	(47,857)
Other adjustments	(384)	(940)
Non-segmental assets	20,623	25,416
Unrealised profit adjustment	(643)	(478)
Elimination of investments in subsidiaries	(23,560)	(14,150)
Elimination of intercompany balances	(57,684)	(65,781)
<b>Total assets (IFRS)</b>	<b>976,424</b>	<b>697,741</b>

	31 December 2009	31 December 2008
<b>Total reportable segment liabilities (RSA)</b>	<b>135,007</b>	<b>106,098</b>
Pension adjustment	3,439	2,933
Adjustment of VAT recoverable according to IFRS	(3,084)	-
Other adjustments	(64)	(241)
Non-segmental liabilities	16,965	26,527
Deferred tax adjustments	80,297	36,142
Elimination of intercompany balances	(57,684)	(65,781)
<b>Total liabilities (IFRS)</b>	<b>174,876</b>	<b>105,678</b>

The main differences between financial information prepared in accordance with IFRS and financial information reported to the chief operating decision-maker related to profit and losses, assets and liabilities results from different accounting methods under IFRS and RSA. Financial information on segments reported to CODM under RSA does not include main adjustments made in accordance with IFRS.

Non-segmental revenue, non-segmental other operating profit (loss), non-segmental assets and liabilities represent corresponding revenues, profit (loss), assets and liabilities of components (subsidiaries) that are not determined as segments by CODM.

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### Note 31. Segment information (continued)

Information on revenues for separate services and products of the Group is presented in Note 23.

The Group performs most of its activities in the Russian Federation and do not have any significant revenues from foreign customers or any non-current assets located in foreign countries.

The major customers of the Group are entities controlled by the Government of Russian Federation. The amounts of revenues from such entities are disclosed in Note 5. The Group has no other major customers with turnover over 10 percent of the Group revenues.

### Note 32. Events after the reporting period

**Additional share issue.** In 2009 FGC UES started to place additional shares. This share issue was completed in January 2010. The Company received cash in the amount of RR 40,178 million for the 80,027 million shares placed. The share of the state increased to 79.11 per cent as the result of the pre-emptive rights execution during the share issue.

In June 2010 Board of Directors approved new additional issue of 28,288.7 million shares with a par value RR 0.5 each for the amount of RR 14,144 million.

**Restructurization of promissory notes of LLC "Energo Finance".** In 2010 non-interest bearing promissory notes of LLC 'Energo Finance' (Note 10) are restructured into interest-bearing notes with the agreed rate of 13%.

**Credit line.** In May 2010 the Company and JSB Gazprombank conclude an agreement to open a 3-year credit line for RR 15,000 million.

**Bonds redemption.** In June 2010 the Company has redeemed interest-bearing non-convertible bonds, Issue 02 (Note 18) with the total nominal value of RR 7,000 million.

**Dividends.** In June 2010 the Annual General Meeting approved the proposal of the Board of Directors not to pay dividends for 2009.