FEDERAL GRID COMPANY UES GROUP

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

FOR THE YEAR ENDED 31 DECEMBER 2011

pwc

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 consolidated financial statements of JSC FGC UES and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2011, 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 about whether the consolidated 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.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

7 Without qualifying our opinion, we draw attention to Notes 1 and 5 to the accompanying 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
19 April 2012

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CONTENTS

Notes to the Consolidated Financial Statements

Consolidated Statement of Financial Position as at 31 December 2011
(in millions of Russian Roubles)

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	980,677	851,228
Intangible assets	7	6,973	6,189
Investments in associated companies	8	910	348
Available-for-sale investments	9	69,979	9,531
Long-term promissory notes	10	14,928	11,046
Other non-current assets	11	1,039	2,507
Total non-current assets		**1,074,506**	**880,849**
Current assets			
Cash and cash equivalents	12	25,627	13,573
Bank deposits	13	1,184	4,606
Short-term promissory notes	10	20,737	43,156
Loans given		448	18
Accounts receivable and prepayments	14	32,944	32,654
Income tax prepayments		1,911	581
Inventories	15	6,320	5,602
		89,171	**100,190**
Non-current assets held for sale	16	-	90,609
Total current assets		**89,171**	**190,799**
TOTAL ASSETS		**1,163,677**	**1,071,648**
EQUITY AND LIABILITIES			
Equity			
Share capital: Ordinary shares	17	627,974	616,781
Treasury shares	17	(5,522)	(6,864)
Share premium	17	10,501	10,501
Reserves	17	314,323	361,267
Accumulated deficit		(49,962)	(108,525)
Equity attributable to the shareholders of JSC "FGC UES"		**897,314**	**873,160**
Non-controlling interest		793	944
Total equity		**898,107**	**874,104**
Non-current liabilities			
Deferred income tax liabilities	18	80,572	83,657
Non-current debt	19	130,778	50,000
Retirement benefit obligations	20	4,686	4,318
Total non-current liabilities		**216,036**	**137,975**
Current liabilities			
Accounts payable to the shareholders of JSC "FGC UES"	17	2,275	11,240
Current debt and current portion of non-current debt	21	2,002	7,497
Accounts payable and accrued charges	22	44,974	40,552
Income tax payable		283	280
Total current liabilities		**49,534**	**59,569**
Total liabilities		**265,570**	**197,544**
TOTAL EQUITY AND LIABILITIES		**1,163,677**	**1,071,648**

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

19 April 2012

Deputy Chairman of the Management Board A.V. Kazachenkov

Head of Accounting and Financial Reporting – Chief Accountant A.P. Noskov

FGC UES Group

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Revenue	23	139,571	113,330
Other operating income	23	7,793	4,484
Operating expenses	24	(100,750)	(87,873)
Gain on disposal of available-for-sale investments and investments in associates	16	31,115	606
Loss on re-measurement of assets held for sale	16	(4,718)	(6,896)
Impairment of property, plant and equipment and intangible assets	6, 7	(1,174)	(846)
Operating profit		**71,837**	**22,805**
Finance income	25	3,957	5,807
Finance costs	26	(278)	(619)
Impairment of available-for-sale investments	9	(12,661)	(235)
Share of result of associates	8	8	(833)
Loss on dilution of share in associates	8	-	(2,790)
Profit before income tax		**62,863**	**24,135**
Income tax	18	(13,875)	(5,752)
Profit for the year		**48,988**	**18,383**
Other comprehensive income			
Change in fair value of available-for-sale investments	9, 17	(24,952)	18,800
Accumulated gain on available-for-sale investments recycled to profit or loss	16, 17	(31,115)	-
Impairment of available-for-sale investments reclassified to profit or loss	9, 17	12,661	-
Foreign currency translation difference	8, 17	66	(22)
Income tax recorded directly in other comprehensive income	18	8,372	(3,760)
Other comprehensive (loss) / income for the year, net of income tax		**(34,968)**	**15,018**
Total comprehensive income for the year		**14,020**	**33,401**
Profit / (loss) attributable to:			
Shareholders of JSC "FGC UES"	27	49,139	19,009
Non-controlling interest		(151)	(626)
Total comprehensive income / (loss) attributable to:			
Shareholders of JSC "FGC UES"		14,171	34,027
Non-controlling interest		(151)	(626)
Earning per ordinary share for profit attributable to the shareholders of JSC "FGC UES" – basic and diluted (in Russian Roubles)	27	**0.039**	**0.015**

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

19 April 2012

Deputy Chairman of the Management Board — A.V. Kazachenkov

Head of Accounting and Financial Reporting – Chief Accountant — A.P. Noskov

FGC UES Group

Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in millions of Russian Roubles)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		**62,863**	**24,135**
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation of property, plant and equipment	24	33,187	30,185
(Gain) / loss on disposal of property, plant and equipment	24	(617)	910
Amortisation of intangible assets	24	865	869
Impairment of property, plant and equipment and intangible assets	6, 7	1,174	846
Impairment of available-for-sale investments	9	12,661	235
Gain on disposal of available-for-sale investments and investments in associates	16	(31,115)	(606)
Loss on re-measurement of assets held for sale	16	4,718	6,896
Share of result of associates	8	(8)	833
Loss on decrease of share in associates due to dilution of share capital	8	-	2,790
Accrual / (reversal) of allowance for doubtful debtors	24	4,305	(2,164)
Write-off of accounts payable	23	(2,753)	(1)
Share-based compensation	17, 24	1,342	-
Finance income	25	(3,957)	(5,807)
Finance costs	26	278	619
Other non-cash operating income		69	50
Operating cash flows before working capital changes and income tax paid		**83,012**	**59,790**
Working capital changes:			
Increase in accounts receivable and prepayments		(6,828)	(975)
Increase in inventories		(753)	(2,329)
Increase in other non-current assets		(12)	(1,548)
Increase in accounts payable and accrued charges		2,281	7,935
Increase / (decrease) in taxes payable, other than income tax		381	(998)
Increase in retirement benefit obligations		447	879
Income tax paid		(9,883)	(9,305)
Net cash generated by operating activities		**68,645**	**53,449**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(153,471)	(141,882)
Proceeds from disposal of property, plant and equipment		1,431	943
Purchase of intangible assets		(1,649)	(861)
Purchase of promissory notes		(52,300)	(56,932)
Investment in bank deposits		(6,386)	(3,988)
Redemption of promissory notes		75,098	55,963
Redemption of bank deposits		9,808	9,569
Dividends received		45	512
Interest received		2,681	9,633
Net cash used in investing activities		**(124,743)**	**(127,043)**

Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in millions of Russian Roubles)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from share issuance	17	2,220	11,193
Proceeds from non-current debt		80,000	50,000
Proceeds from current debt		105	-
Repayment of current debt		(6,505)	(7,000)
Repayment of lease		(126)	-
Dividends paid		(2,543)	-
Interest paid		(4,999)	(725)
Net cash generated by financing activities		**68,152**	**53,468**
Net increase / (decrease) in cash and cash equivalents		**12,054**	**(20,126)**
Cash and cash equivalents as at the beginning of the year	12	**13,573**	**33,699**
Cash and cash equivalents as at the end of the year	12	**25,627**	**13,573**

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

19 April 2012

Deputy Chairman of the Management Board A.V. Kazachenkov

Head of Accounting and Financial Reporting – Chief Accountant A.P. Noskov

Consolidated Statement of Changes in Equity for the year ended 31 December 2011
(in millions of Russian Roubles)

		Attributable to the shareholders of JSC "FGC UES"							
	Note	**Share capital**	**Share premium**	**Treasury shares**	**Reserves (Note 17)**	**Accumu-lated deficit**	**Total**	**Non-controlling interest**	**Total equity**
As at 1 January 2011		**616,781**	**10,501**	**(6,864)**	**361,267**	**(108,525)**	**873,160**	**944**	**874,104**
Comprehensive income for the year									
Profit / (loss) for the year		-	-	-	-	49,139	**49,139**	(151)	**48,988**
Other comprehensive income, net of related income tax									
Change in revaluation reserve for property, plant and equipment	17	-	-	-	(1,227)	1,227	**-**	-	**-**
Change in fair value of available-for-sale investments	9, 17	-	-	-	(19,961)	-	**(19,961)**	-	**(19,961)**
Change in revaluation reserve for property, plant and equipment of associates (previously classified as non-current assets held for sale)	16, 17	-	-	-	(10,749)	10,749	**-**	-	**-**
Accumulated gain on available-for-sale investments recycled to profit or loss	9, 16, 17	-	-	-	(15,073)	-	**(15,073)**	-	**(15,073)**
Foreign currency translation difference	8	-	-	-	66	-	**66**	-	**66**
Total other comprehensive income / (loss)		-	-	-	*(46,944)*	*11,976*	***(34,968)***	-	***(34,968)***
Total comprehensive income / (loss) for the year		-	-	-	(46,944)	61,115	**14,171**	(151)	**14,020**
Transactions with the shareholders of JSC "FGC UES" recorded directly in equity									
Issue of share capital	17	11,193	-	-	-	-	**11,193**	-	**11,193**
Dividends declared	17	-	-	-	-	(2,552)	**(2,552)**	-	**(2,552)**
Share-based compensation	17	-	-	1,342	-	-	**1,342**	-	**1,342**
Total transactions with the shareholders of JSC "FGC UES"		11,193	-	1,342	-	(2,552)	**9,983**	-	**9,983**
As at 31 December 2011		**627,974**	**10,501**	**(5,522)**	**314,323**	**(49,962)**	**897,314**	**793**	**898,107**

The accompanying notes on pages 9 to 53 are an integral part of these Consolidated Financial Statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2011
(in millions of Russian Roubles)

		Attributable to the shareholders of JSC "FGC UES"							
	Note	Share capital	Share premium	Treasury shares	Reserves (Note 17)	Accumu-lated deficit	Total	Non-controlling interest	Total equity
As at 1 January 2010		**576,757**	**10,347**	**(6,864)**	**290,674**	**(71,959)**	**798,955**	**1,570**	**800,525**
Comprehensive income for the year									
Profit / (loss) for the year		-	-	-	-	19,009	**19,009**	(626)	**18,383**
Other comprehensive income, net of related income tax									
Change in revaluation reserve for property, plant and equipment	17	-	-	-	(1,316)	1,316	-	-	-
Change in fair value of available-for-sale investments	9, 17	-	-	-	15,040	-	**15,040**	-	**15,040**
Foreign currency translation difference	8	-	-	-	(22)	-	**(22)**	-	**(22)**
Total other comprehensive income		-	-	-	*13,702*	*1,316*	***15,018***	-	***15,018***
Total comprehensive income / (loss) for the year		-	-	-	13,702	20,325	**34,027**	(626)	**33,401**
Transactions with the shareholders of JSC "FGC UES" recorded directly in equity									
Issue of share capital	17	40,024	154	-	-	-	**40,178**	-	**40,178**
Transfer of merger reserve to retained earnings	17	-	-	-	56,891	(56,891)	-	-	-
Total transactions with the shareholders of JSC "FGC UES"		40,024	154	-	56,891	(56,891)	**40,178**	-	**40,178**
As at 31 December 2010		**616,781**	**10,501**	**(6,864)**	**361,267**	**(108,525)**	**873,160**	**944**	**874,104**

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

19 April 2012

Deputy Chairman of the Management Board — A.V. Kazachenkov

Head of Accounting and Financial Reporting – Chief Accountant — A.P. Noskov

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") ultimately controlled by the Government of the Russian Federation (the "RF").

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

FGC UES was established in the course of the Russian electric utilities industry restructuring, 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. During 2002-2008 the Company consolidated electricity transmission businesses previously controlled by RAO UES. In 2008 the reorganisation of RAO UES was completed and RAO UES ceased to exist as a legal entity. FGC UES is RAO UES's legal successor.

As at 31 December 2011 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").

The Company's ordinary registered uncertified shares are traded on the MICEX-RTS exchange under the trading code "FEES". Starting from March 2011 the Company's Global Depository Receipts (GDRs) are listed on the Main Market of the London Stock Exchange.

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

Relations with the state. As at 31 December 2011, the state owned 79.48 percent of the voting ordinary shares of the Company (as at 31 December 2010: 79.48 percent). The Government of the 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 Energy 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.

Operating environment. The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation (Note 28).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for the Group's receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Regulatory uncertainties related to electricity transmission tariff decisions may also have an impact on management's cash flow forecasts and assessment of the impairment of non-financial assets. Management has considered the effect of these uncertainties on the recoverable amount of property, plant and equipment and concluded that there is no impairment charge should be recognised for the year ended 31 December 2011 (Notes 2 and 6).

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. 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 necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Note 2. Basis of preparation

Statement of compliance. These consolidated financial statements ("Consolidated Financial Statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations.

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 Consolidated 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 Consolidated Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million, unless otherwise stated.

New accounting developments. These Consolidated Financial Statements have been prepared by applying the accounting policies and methods of computation consistent with those of the annual consolidated financial statements for the year ended 31 December 2010, 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 2011.

(a) Certain new standards and interpretations became effective for the Group from 1 January 2011:

- *Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 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 the 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 the requirements for the presentation and content of the statement of changes in equity; 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 above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these Consolidated Financial Statements.

- *Amendment to IAS 24 "Related Party Disclosures" (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).* IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted this amendment in its 2010 consolidated financial statements.

Note 2. Basis of preparation (continued)

- *Other revised standards and interpretations effective for the current period.* IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these Consolidated Financial Statements.

(b) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later, and which the Group has not early adopted:

- *IFRS 9, Financial Instruments: Classification and Measurement.* IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

  • Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  • An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  • All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  • Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

  While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- *IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),* replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

- *IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),* replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

Note 2. Basis of preparation (continued)

- *IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

- *IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),* aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

- *IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),* was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

- *IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

- *Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).* The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

- *Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012),* changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

- *Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),* makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

- *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).* The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Note 2. Basis of preparation (continued)

- *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)*. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.
- *Other revised standards and interpretations:* The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these Consolidated Financial Statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

Going concern. These Consolidated 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 Consolidated 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 estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these Consolidated 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 Group assessed the recoverable amount of its non-current assets as at 31 December 2011 applying certain estimates (Note 6). Actual results may be different from these estimates.

Investment in OJSC "Inter RAO UES". As at 31 December 2011 the Group owns 19.95% of the voting shares of OJSC "Inter RAO UES" ("Inter RAO UES"). Management has assessed the level of influence that the Group has on Inter RAO UES, taking into account its inability to obtain any additional financial information which may be required to execute this influence, and determined that it did not amount to significant influence. Consequently, this investment is classified as available-for-sale investment (Note 9).

Decline on fair value of available-for-sale equity investments (Note 9). The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, the volatility in share price and trend in share price movements during the period of analysis. As at 31 December 2011, the decline in fair value of Inter RAO UES shares below cost is considered significant and prolonged and therefore the Group recorded an impairment of RR 12,661 million in the Consolidated Statement of the Comprehensive Income.

Carrying value of LLC "ENERGO-finance" promissory notes. As at 31 December 2011 the Group holds promissory notes issued by LLC "ENERGO-finance" with the carrying value of RR 9,197 million (Note 10). The recoverability of these notes significantly depends on the future trends in the Russian utility stock market. The Group assessed that the carrying value of these notes represents their recoverable amount. If actual stock market trends differ from current expectations, the notes may not be partly or fully recovered.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued in the consolidated financial statements. The possible tax claims in respect of certain open tax positions of the Group companies are disclosed in Note 28.

(in millions of Russian Roubles unless otherwise stated)

Note 2. Basis of preparation (continued)

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

As at 31 December 2010: **Consolidated Statement of Financial Position**	**As originally presented**	**Reclassification**	**As currently presented**
Loans given	-	18	18
Accounts receivable and prepayments	32,672	(18)	32,654
Accounts payable to the shareholders of JSC “FGC UES”	11,193	47	11,240
Current debt and current portion of non-current debt	7,385	112	7,497
Accounts payable and accrued charges	39,760	792	40,552
Other taxes payable	1,231	(1,231)	-
Income tax payable	-	280	280

The reclassifications in the Consolidated Statement of Financial Position had an impact on information in Notes 5, 11, 14, 18, 19, 21, 22, 29, 31 and had no impact on any other captions in the Consolidated Statement of Financial Position and related note disclosures. Management considered materiality and concluded omission of opening statement of financial position is not material.

Note 3. Summary of significant accounting policies

Principles of consolidation. These Consolidated 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 OJSC “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 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 entity’s assets and operations.

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

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in the consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in the consolidated financial statements as an adjustment to retained earnings 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.

The Group’s share of the post-acquisition profits or losses of associates is recorded in profit or loss, and its share of other comprehensive income of associates 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.

Note 3. Summary of significant accounting policies (continued)

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 the consolidated 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 consolidated 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.

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.

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 recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the period.

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.

(in millions of Russian Roubles unless otherwise stated)

Note 3. Summary of significant accounting policies (continued)

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 2011, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar ("US$") was RR 32.20:US$ 1.00 (31 December 2010: RR 30.48:US$ 1.00); between the Russian Rouble and Euro: RR 41.67:Euro 1.00 (31 December 2010: RR 40.33: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.

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 Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Note 3. Summary of significant accounting policies (continued)

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. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Bank deposits. Bank deposits comprise cash deposited at banks with a maturity date of more than three months from the acquisition date. Bank deposits are carried at amortised cost using the effective interest method.

Promissory notes. Promissory notes are financial assets with fixed or determinable cash flows recognised initially at fair value and subsequently carried at amortised cost using the effective interest method. The Group classifies a promissory note as short-term when it expects to realise it within twelve months after the reporting period. All other promissory notes are classified as long-term.

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.

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.

Note 3. Summary of significant accounting policies (continued)

Inventories. Inventories mostly include repair materials and spare parts for transmission assets. Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified non-current financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Income taxes. Income taxes have been provided for in these 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.

Note 3. Summary of significant accounting policies (continued)

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.

Advances received. Advances received are primarily a deferred income for the future connection services and are reflected at not discounted cost.

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 rates of interest for similar instruments, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest 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. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. The commencement date for capitalisation is when the Group (a) incurs expenditures for the qualifying asset; (b) incurs borrowing costs; and (c) undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. 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 Pension Fund of the RF 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 dependents 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 consolidated statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period 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 is 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.

Share-based compensation. The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of FGC UES. The fair value of options granted to employees is recognised as an employee benefit expense, with a corresponding increase in equity, over the period that employees become unconditionally entitled to the options (vesting period). At the end of each reporting period the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in the profit or loss, with a corresponding adjustment to equity.

Note 3. Summary of significant accounting policies (continued)

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.

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 consolidated financial statements are authorised for issue.

Non-controlling interest. Non-controlling interest represents minority's proportionate share of the equity and comprehensive income of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. Specific rights on liquidation for preference shareholders of subsidiaries are included in the calculation of non-controlling interests. The Group uses the 'economic entity' approach to the recognition of non-controlling interest. Any gains or losses resulting from the purchases and sales of the non-controlling interests are recognised in the consolidated 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 recognised 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 are 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 period.

(in millions of Russian Roubles unless otherwise stated)

Note 4. Principal subsidiaries

All subsidiaries are incorporated and operate in the Russian Federation.

The principal subsidiaries as at 31 December 2011 and 31 December 2010 are presented below:

	31 December 2011		31 December 2010	
Name	**Ownership, %**	**Voting, %**	**Ownership, %**	**Voting, %**
Transmission companies:				
OJSC "The Kuban trunk grids"	49.0	49.0	49.0	49.0
OJSC "The Tomsk trunk grids"	52.0	59.9	52.0	59.9
Other companies				
OJSC "Nurenergo"	77.0	77.0	77.0	77.0
OJSC "Mobile gas-turbine electricity plants"	100.0	100.0	100.0	100.0
OJSC "Power industry research and development Centre"	100.0	100.0	100.0	100.0
OJSC "Dalenergosetproject"	100.0	100.0	100.0	100.0
OJSC "Specialised electricity transmission service company of UNEN"	100.0	100.0	100.0	100.0
OJSC "Engineering and construction management centre of Unified Energy System"	100.0	100.0	100.0	100.0
LLC "Index energetiki – FGC UES"	100.0	100.0	100.0	100.0

Transmission companies. OJSC "The Kuban trunk grids" and OJSC "The Tomsk trunk grids" own UNEN grid assets which are maintained and operated by the Company.

OJSC "Nurenergo" performs electricity distribution and sale activity in the Republic of Chechnya. Due to the difficult operating environment in the Republic of Chechnya, OJSC "Nurenergo" has negative net assets.

OJSC "Mobile gas-turbine electricity plants". 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.

OJSC "Power industry research and development centre" is a research and development project institution in the sphere of electric power.

OJSC "Dalenergosetproject" is a grid engineering company.

OJSC "Specialised electricity transmission service company of UNEN". The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of UNEN.

OJSC "Engineering and construction management centre of Unified Energy System". The main activity of this company is functioning as a customer-developer in capital construction projects associated with the reconstruction and technical modernisation of electricity supply facilities and infrastructure.

LLC "Index energetiki – FGC UES" ("Index Energetiki") owns minority shares in OJSC "Inter RAO UES" and OJSC "IDGC Holding" (in 2010 owned minority shares in electricity industry entities, former subsidiaries of RAO UES).

(in millions of Russian Roubles unless otherwise stated)

Note 5. Balances and transactions with related parties

Government-related entities. In the normal course of business the Group enters into transactions with government-related entities – entities, controlled, jointly controlled or significantly influenced by the Government of the RF. Large portion of the Group's primary activity – transmission services are rendered to government-related entities at the regulated tariffs. The Group borrows funds from government-related banks at the prevailing market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

During the years ended 31 December 2011 and 31 December 2010 the Group had the following significant transactions with government-related entities:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Transmission revenue	120,247	100,562
Electricity sales	876	2,004
Connection services	373	500

Significant balances with government-related entities are presented below:

	31 December 2011	**31 December 2010**
Cash and cash equivalents	20,464	6,783
Bank deposits	390	618
Long-term promissory notes	3,836	1,599
Short-term promissory notes	14,680	19,478
Loans given	430	-
Trade receivables (Net of allowance for doubtful debtors of RR 3,931 million as at 31 December 2011 and RR 375 million as at 31 December 2010)	10,161	8,655
Available-for-sale investments	69,979	9,531
Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress)	2,764	2,506
Accounts payable to the shareholders of JSC “FGC UES”	(2,275)	(11,240)
Non-current debt	25,000	-
Current debt	(156)	(505)
Accounts payable and accrued charges	(10,976)	(14,580)

During the year ended 31 December 2011 the Group transferred most of its investments in associated companies and available-for-sale investments to Inter RAO UES in exchange for its ordinary shares valued at RR 79,387 million at the relevant dates of the transaction (Notes 9, 16).

As at 31 December 2011 the Group had long-term undrawn committed financing facilities with government-related banks of RR 60,000 million (as at 31 December 2010: nil) (Note 19). Short-term undrawn committed financing facilities with government-related banks amounted to RR 15,000 million as at 31 December 2011 and 31 December 2010 (Note 21).

Tax balances and charges are disclosed in Notes 18, 22 and 24. Tax transactions are disclosed in the Consolidated Statement of Comprehensive Income.

Directors' compensation. Compensation is paid to the 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.

(in millions of Russian Roubles unless otherwise stated)

Note 5. Balances and transactions with related parties (continued)

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 2011 and 31 December 2010 was as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Short-term compensation, including salary and bonuses	416	176
Remuneration for serving on the Board of Directors	7	3
Post-employment benefits and other long-term benefits	23	14
Share-based compensation	638	-
Total	**1,084**	**193**

The amount of the short-term compensation to members of the Management Board represents remuneration accrued during the respective period, including bonuses based on the results of the preceding financial year.

Note 6. Property, plant and equipment

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2011	8,257	437,535	134,401	289,934	13,171	883,298
Additions	6,022	231	452	152,589	6,779	166,073
Transfers	1,905	43,909	67,453	(116,905)	3,638	-
Disposals	(11)	(140)	(1,887)	(609)	(128)	(2,775)
Closing balance as at 31 December 2011	16,173	481,535	200,419	325,009	23,460	1,046,596
Including PPE under finance lease	-	-	2,273	-	914	3,187
Accumulated depreciation and impairment						
Opening balance as at 1 January 2011	(213)	(16,151)	(13,256)	(332)	(2,118)	(32,070)
Charge for the year	(276)	(17,249)	(13,577)	-	(2,085)	(33,187)
Impairment loss	-	-	-	(1,127)	(47)	(1,174)
Disposals	2	13	281	149	67	512
Closing balance as at 31 December 2011	(487)	(33,387)	(26,552)	(1,310)	(4,183)	(65,919)
Including PPE under finance lease	-	-	(1,051)	-	(53)	(1,104)
Net book value as at 1 January 2011	8,044	421,384	121,145	289,602	11,053	851,228
Net book value as at 31 December 2011	15,686	448,148	173,867	323,699	19,277	980,677

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

	Buildings	Power transmission grids	Substations	Construction in progress	Other	Total
Appraisal value or cost						
Opening balance as at 1 January 2010	7,719	430,039	120,602	171,095	9,587	739,042
Additions	565	136	1,118	139,877	3,180	144,876
Transfers	170	7,534	13,758	(21,932)	470	-
Disposals	(197)	(174)	(1,077)	(464)	(66)	(1,978)
Reversal of impairment provision	-	-	-	1,358	-	1,358
Closing balance as at 31 December 2010	8,257	437,535	134,401	289,934	13,171	883,298
Including PPE under finance lease	-	-	2,273	-	-	2,273
Accumulated depreciation and impairment						
Opening balance as at 1 January 2010 *	-	-	-	-	-	-
Charge for the year	(214)	(16,231)	(11,617)	-	(2,123)	(30,185)
Impairment loss	-	-	(1,663)	(332)	(14)	(2,009)
Disposals	1	80	24	-	19	124
Closing balance as at 31 December 2010	(213)	(16,151)	(13,256)	(332)	(2,118)	(32,070)
Including PPE under finance lease	-	-	(991)	-	-	(991)
Net book value as at 1 January 2010	7,719	430,039	120,602	171,095	9,587	739,042
Net book value as at 31 December 2010	8,044	421,384	121,145	289,602	11,053	851,228

* Accumulated depreciation was eliminated against the gross carrying amount of the assets before the revaluation as at 31 December 2009 was recorded.

Borrowing costs of RR 5,833 million for the year ended 31 December 2011 were capitalised within additions (for the year ended 31 December 2010: RR 1,526 million). A capitalisation rate of 7.7% was used for the years ended 31 December 2011 and 31 December 2010 to determine the amount of borrowing costs eligible for capitalisation, representing the weighted average of the borrowing costs applicable to the borrowings of the Group that were outstanding during the periods.

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 2011 such advances amounted to RR 69,504 million net of specific impairment of RR 525 million (as at 31 December 2010: RR 84,320 million net of specific impairment RR 297 million).

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

The Group has the option to purchase land on which electric power transmission lines are located upon application to the state registering body or to formalise the right for rent. According to Russian legislation the expiry date of this option is 1 January 2013. As at 31 December 2011 the Group companies had no intention to purchase this land.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

Revaluation. Property, plant and equipment was 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.

Recoverable amount of property, plant and equipment. The Group assessed the recoverable amount for transmission business at 31 December 2011. The following assumptions have been made as part of the impairment test for the companies involved in transmission activity:

- 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 10% in 2014;
- The amount of expenditure for the period from 2012 through 2030 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 11.85% was determined based on the weighted average cost of capital.

The recoverable amount assessed for property, plant and equipment involved in transmission activity approximates its carrying value. Therefore, neither revaluation nor impairment of property, plant and equipment was recorded as at 31 December 2011. If the discount rate would be 0.5% higher the carrying amounts of property, plant and equipment would exceed the recoverable amount by approximately 3.8%.

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

	Buildings	**Power transmission grids**	**Substations**	**Construction in progress**	**Other**	**Total**
Net book value as at 31 December 2011	12,826	164,818	179,641	374,811	20,623	752,719
Net book value as at 31 December 2010	4,519	118,145	106,065	373,238	11,816	613,783
Net book value as at 31 December 2009	4,288	117,611	92,070	266,034	9,442	489,445

Impairment. For the year ended 31 December 2011 the Group recognised the impairment of property, plant and equipment in the amount of RR 1,174 million, which consisted of an impairment of RR 442 million related to advances to construction companies and suppliers of property, plant and equipment, an impairment of RR 302 million related to property, plant and equipment of OJSC "Nurenergo" located in Chechen Republic and a specific impairment of RR 430 million related to construction in progress which cost is not expected to be recovered.

For the year ended 31 December 2010 the Group recognised the impairment of property, plant and equipment in the amount of RR 2,009 million, which consisted of an impairment of RR 21 million related to advances to construction companies and suppliers of property, plant and equipment, an impairment of RR 206 million related to property, plant and equipment of OJSC "Nurenergo" located in Chechen Republic and an impairment of RR 1,782 million related to property, plant and equipment of OJSC "Mobile gas-turbine plants". At the same time RR 1,358 million of previously recognised impairment of advances to construction companies and suppliers of property, plant and equipment was reversed.

Leased property, plant and equipment. Subsequent to the latest revaluation the Group leased certain equipment under a number of finance lease agreements. As at 31 December 2011 the net book value of leased property, plant and equipment was RR 2,083 million (as at 31 December 2010: RR 1,282 million). The leased equipment is pledged as security for the lease obligations.

(in millions of Russian Roubles unless otherwise stated)

Note 6. Property, plant and equipment (continued)

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 2011	31 December 2010
Under one year	413	340
Between one and five years	1,146	1,212
Over five years	7,627	6,356
Total	**9,186**	**7,908**

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 2011 the carrying value of property, plant and equipment leased out under operating lease was RR 1,744 million (as at 31 December 2010: RR 1,808 million).

(in millions of Russian Roubles unless otherwise stated)

Note 7. Intangible assets

	Corporate system of managing geographically dispersed resources	Corporate information management system (SAP R/3)	Other intangible assets	Total
Cost as at 1 January 2010	1,707	4,498	2,539	8,744
Accumulated amortisation	(532)	(692)	(662)	(1,886)
Accumulated impairment	-	(466)	-	(466)
Carrying value as at 1 January 2010	1,175	3,340	1,877	6,392
Additions	-	263	666	929
Disposals - cost	-	(39)	(42)	(81)
Disposals - accumulated amortisation	-	-	13	13
Amortisation charge	(171)	(329)	(369)	(869)
Impairment loss	-	(195)	-	(195)
Carrying value as at 31 December 2010	1,004	3,040	2,145	6,189
Cost as at 31 December 2010	1,707	4,722	3,163	9,592
Accumulated amortisation	(703)	(1,021)	(1,018)	(2,742)
Accumulated impairment	-	(661)	-	(661)
Carrying value as at 31 December 2010	1,004	3,040	2,145	6,189
Additions	-	309	1,401	1,710
Disposals - cost	-	(661)	(157)	(818)
Disposals - accumulated amortisation	-	-	96	96
Amortisation charge	(157)	(320)	(388)	(865)
Write-off of previously impaired assets	-	661	-	661
Carrying value as at 31 December 2011	847	3,029	3,097	6,973
Cost as at 31 December 2011	1,707	4,370	4,407	10,484
Accumulated amortisation	(860)	(1,341)	(1,310)	(3,511)
Accumulated impairment	-	-	-	-
Carrying value as at 31 December 2011	847	3,029	3,097	6,973

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 as at 31 December 2011 and 31 December 2010.

The Corporate information management system (SAP R/3) consists of several modules (parts) and related licences. As at 31 December 2011 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 R/3) includes development costs of RR 2,424 million as at 31 December 2011 (as at 31 December 2010: RR 2,399 million).

Other intangible assets include capitalised software development costs that meet the definition of an intangible asset of RR 1,272 million as at 31 December 2011 (as at 31 December 2010: RR 1,570 million).

As at 31 December 2011 management assessed the recoverable amount of non-current assets of Transmission segment (Note 6), which includes most of the intangible assets of the Group. As a result of the assessment performed no impairment was identified as at that date. In 2010 the Group recorded a specific impairment of RR 195 million in relation to intangible assets which cost is not expected to be recovered. In 2011 all previously impaired intangible assets were written-off in full, no new specific impairment was recorded.

(in millions of Russian Roubles unless otherwise stated)

Note 8. Investments in associated companies

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

	Year ended 31 December 2011	Year ended 31 December 2010
Carrying value as at 1 January	348	58,451
Share of result of associates	8	(833)
Loss on dilution of share in associates	-	(2,790)
Translation difference	66	(22)
Disposal of associates	-	(1,231)
Transfer from / (to) non-current assets held for sale	488	(53,227)
Carrying value as at 31 December	**910**	**348**

The carrying value of investments in associates is as follows:

	31 December 2011	31 December 2010
JSC UES “GruzRosEnergo”	557	561
OJSC “WGC-1”	-	27,559
OJSC “Volzhskaya TGC”	-	16,268
OJSC “TGC-6”	-	5,438
OJSC “TGC-11”	-	3,401
Other associates	353	348
Less: transfer to non-current assets held for sale	-	(53,227)
Total investments in associates	**910**	**348**

Transfer to non-current assets held for sale. As at 31 December 2010 the investments in OJSC “WGC-1”, OJSC “TGC-6”, OJSC “TGC-11”, OJSC “Volzhskaya TGC” and JSC UES “GruzRosEnergo”, in the total amount of RR 53,227 million, were classified as held for sale under IFRS 5 “Non-current assets held for sale and discontinued operations”. In March and May 2011, all the above-mentioned investments, except for that in JSC UES “GruzRosEnergo”, were transferred to Inter RAO UES in exchange for its additionally issued ordinary shares (Note 16). Following its exclusion from the Inter RAO UES transaction, the investment in JSC UES “GruzRosEnergo” was reclassified back from non-current assets held for sale to investments in associates.

(in millions of Russian Roubles unless otherwise stated)

Note 9. Available-for-sale investments

	1 January 2011	Additions	Change in fair value*	Impairment charge	31 December 2011
OJSC “Inter RAO UES”	2,674	79,387	(2,323)	(12,661)	67,077
OJSC “IDGC Holding”	6,857	-	(3,955)	-	2,902
Total	**9,531**	**79,387**	**(6,278)**	**(12,661)**	**69,979**

	1 January 2010	Additions	Change in fair value*	Impairment charge	Transfer to non-current assets held-for-sale	31 December 2010
OJSC “IDGC Holding”	4,247	-	2,610	-		6,857
OJSC “Inter RAO UES”	2,668	-	6	-		2,674
OJSC “Bashkirenergo”	7,699	-	7,852	-	(15,551)	-
OJSC “RusHydro”	5,337	4	2,397	-	(7,738)	-
OJSC “Mosenergo”	5,878	1	(97)	-	(5,782)	-
OJSC “WGC-6”	2,899	-	2,701	-	(5,600)	-
OJSC “WGC-4”	2,261	1	1,878	-	(4,140)	-
OJSC “WGC-2”	626	-	596	-	(1,222)	-
OJSC “TGC-1”	857	-	260	-	(1,117)	-
OJSC “WGC-3”	818	-	151	-	(969)	-
OJSC “RAO ES Vostoka”	487	-	68	-	(555)	-
OJSC “TGC-9”	282	-	147	-	(429)	-
OJSC “Kuzbassenergo”	255	-	130	-	(385)	-
OJSC “Sangtudinskaya GES-1”	555	-	-	(235)	(320)	-
OJSC “TGC-13”	210	-	97	-	(307)	-
OJSC “TGC-11 Holding”	150	-	13	-	(163)	-
Total	**35,229**	**6**	**18,809**	**(235)**	**(44,278)**	**9,531**

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

Available-for-sale investments valuation

The fair value of the available-for-sale financial instruments was determined based on the quoted market prices.

Impairment of investment in Inter RAO UES

During the year ended 31 December 2011 the fair value of shares in Inter RAO UES has declined below cost. The Group assessed these investments for impairment at 31 December 2011 and concluded that there was evidence of a significant and prolonged decline in the fair value or equity investments below their cost (Note 2). The fall in fair value of these investments during the reporting period amounted to RR 14,984 million. The revaluation surplus accumulated in the reserve for available-for-sale investments as at 1 January 2011 amounted to RR 2,323 million (with related deferred tax liability of RR 155 million). Therefore, the impairment charge reclassified from other comprehensive income to profit or loss amounted to RR 12,661 million (Note 17).

Transfer to non-current assets held-for-sale

Most of the available-for-sale investments held by the Group in 2010 were reclassified to non-current assets held for sale as at 31 December 2010. In March and May 2011 those investments as well as investments in associated companies were transferred to Inter RAO UES (Note 16) in exchange for its ordinary shares valued at RR 79,387 million at the relevant dates of the transaction. The Group continues to classify its investment in Inter RAO UES as available for sale.

(in millions of Russian Roubles unless otherwise stated)

Note 10. Promissory notes

	Rating	Rating agency	Effective interest rate, %	Due	31 December 2011	31 December 2010
Long-term promissory notes						
LLC “ENERGO-finance”		Not available	9.1%-10.1%	2014	9,197	8,466
OJSC “IDGC of the South”*		Not available	8.9%	2013	2,724	-
OJSC “Alfa-Bank”	BB	Standard & Poor's	7.25%-12.6%	2013-2015	1,225	371
OJSC “System operator UES”*		Not available	11.1%	2012-2013	984	1,461
Other long-term promissory notes			11.1%-12.6%	2013-2038	798	748
Total long-term promissory notes					**14,928**	**11,046**
Short-term promissory notes						
OJSC “Gazprombank”*	BB+	Standard & Poor's	6.1%-7.4%	2012	14,040	-
OJSC “Promsvyazbank”	Ba2	Moody’s	8.00%	2012	3,014	3,002
OJSC Bank “ROSSIYA”	B+	Standard & Poor's	8.3%	2012	2,010	4,076
OJSC "Bank "Saint Petersburg"	Ba3	Moody’s	8.5%	2012	1,007	-
OJSC “System operator UES”*		Not available	11.1%	2012	607	-
OJSC “VTB Bank”*	BBB	Standard & Poor's	1.5%-8.5%	2012	-	19,232
OJSC “Alfa-Bank”	BB	Standard & Poor's	2.6%-13.1%	2012	-	14,431
OJSC “International Financial Club”		Not available	6.30%	2012	-	2,002
Other short-term promissory notes			11.1%-12.6%	2012	59	413
Total short-term promissory notes					**20,737**	**43,156**

Companies marked with * above are government-related entities (Note 5).

As at 31 December 2011 and 31 December 2010 the promissory notes of LLC “ENERGO-Finance” were impaired (Note 29). The notes are not overdue as they were restructured in 2010.

All promissory notes are denominated in Russian roubles. As at 31 December 2011 and 31 December 2010 the fair value of promissory notes, determined using valuation technique, was RR 35,731 million and RR 54,384 million respectively. The valuation was mainly based on discounting of the future expected cash flows at the current market interest rate available for debtors with similar level of credit risk.

Note 11. Other non-current assets

	31 December 2011	31 December 2010
Long-term trade receivables (Net of allowance for doubtful debtors of RR 108 million as at 31 December 2011 and RR 224 million as at 31 December 2010)	116	1,411
Long-term loans given	-	296
Total financial assets	**116**	**1,707**
VAT recoverable	216	253
Other non-current assets	707	547
Total other non-current assets	**1,039**	**2,507**

(in millions of Russian Roubles unless otherwise stated)

Note 12. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash at bank and in hand	18,925	13,373
Cash equivalents	6,702	200
Total cash and cash equivalents	**25,627**	**13,573**

Cash at bank and in hand	Rating	Rating agency	31 December 2011	31 December 2010
OJSC “Sberbank”	Baa1	Moody’s	13,654	6,725
OJSC "Bank “ROSSIYA”	B+	Standard & Poor's	4,000	-
OJSC “Alfa-Bank”	BB	Standard & Poor's	1,065	6,434
OJSC “Gazprombank”	BB+	Standard & Poor's	150	58
Other			56	156
Total cash at bank and in hand			**18,925**	**13,373**

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

Bank deposits	Interest rate	Rating	Rating agency	31 December 2011	31 December 2010
OJSC “Sberbank”	4.5%-6.0%	Baa1	Moody’s	5,420	192
OJSC “VTB bank”	7.0%-8.5%	BBB	Standard & Poor's	690	-
OJSC “Gazprombank”	7.6%	BB+	Standard & Poor's	550	-
Other				-	8
Total certificates of deposit				**6,660**	**200**

There were no certificates of deposit denominated in foreign currency included in cash equivalents as at 31 December 2011 and 31 December 2010.

Note 13. Bank deposits

Bank deposits	Interest rate	Rating	Rating agency	31 December 2011	31 December 2010
OJSC “Alfa-Bank”	5.2%-5.4%	BB	Standard & Poor's	794	988
OJSC “VTB bank”	6.1%-8.8%	BBB	Standard & Poor's	200	618
OJSC “Sberbank”	3.8%-5.5%	Baa1	Moody’s	190	-
OJSC “Nomos-bank”	6.5%	Ba3	Moody’s	-	3,000
Total bank deposits				**1,184**	**4,606**

The carrying amount of bank deposits approximates their fair value.

There were no bank deposits denominated in foreign currency as at 31 December 2011 (as at 31 December 2010: RR 88 million).

Note 14. Accounts receivable and prepayments

	31 December 2011	31 December 2010
Trade receivables (Net of allowance for doubtful debtors of RR 6,570 million as at 31 December 2011 and RR 2,900 million as at 31 December 2010)	12,036	10,605
Other receivables (Net of allowance for doubtful debtors of RR 908 million as at 31 December 2011 and RR 695 million as at 31 December 2010)	932	741
Total financial assets	**12,968**	**11,346**
Advances to suppliers (Net of allowance for doubtful debtors of RR 2,033 million as at 31 December 2011 and RR 1,874 million as at 31 December 2010)	2,764	1,646
VAT recoverable	9,054	9,199
Tax prepayments	5,923	8,454
VAT related to advances received	2,235	2,009
Total accounts receivable and prepayments	**32,944**	**32,654**

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.

(in millions of Russian Roubles unless otherwise stated)

Note 14. Accounts receivable and prepayments (continued)

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 of receivables approximates their fair value.

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

Year ended 31 December 2011	Trade receivables	Other receivables	Advances to suppliers and prepayments	Long-term accounts receivable	Total
As at 1 January	**2,900**	**695**	**1,874**	**224**	**5,693**
Provision accrual	4,059	447	67	2	4,575
Provision reversal	(98)	(172)	(22)	-	(292)
Debt written-off	(3)	(13)	-	-	(16)
Amortisation of discount	(314)	(14)	-	(13)	(341)
Reclassification from/(to) other items	26	(35)	114	(105)	-
As at 31 December	**6,570**	**908**	**2,033**	**108**	**9,619**

Year ended 31 December 2010	Trade receivables	Other receivables	Advances to suppliers and prepayments	Long-term accounts receivable	Total
As at 1 January	**4,862**	**992**	**2,162**	**24**	**8,040**
Provision accrual	206	171	132	205	714
Provision reversal	(2,027)	(338)	(247)	-	(2,612)
Debt written-off	(5)	(5)	(173)	-	(183)
Amortisation of discount	(136)	(125)	-	(5)	(266)
As at 31 December	**2,900**	**695**	**1,874**	**224**	**5,693**

As at 31 December 2011 the overdue accounts receivable for which the provision had not been recorded amounted to RR 3,516 million (as at 31 December 2010: RR 4,043 million). The ageing analysis is shown below:

	31 December 2011	31 December 2010
Less than 3 months	2,011	2,432
3 to 6 months	1,347	1,270
6 to 12 months	64	14
1 year to 5 years	94	327
Total	**3,516**	**4,043**

The analysis of overdue accounts receivable for which the provision had been recorded as at 31 December 2011 is shown below, gross of allowance for doubtful debtors:

	31 December 2011	31 December 2010
Less than 3 months	882	189
3 to 6 months	2,132	705
6 to 12 months	427	233
1 year to 5 years	2,496	2,200
More than 5 years	5	-
Total	**5,942**	**3,327**

Note 15. Inventories

	31 December 2011	31 December 2010
Repair materials	3,751	3,501
Spare parts	2,232	1,669
Other inventories	337	432
Total inventories	**6,320**	**5,602**

(in millions of Russian Roubles unless otherwise stated)

Note 15. Inventories (continued)

The cost of inventories is shown net of an obsolescence provision for RR 73 million as at 31 December 2011 (as at 31 December 2010: RR 38 million). As at 31 December 2011 and 31 December 2010 the Group had no inventories pledged as security under loan and other agreements.

Note 16. Non-current assets held for sale

	31 December 2011	31 December 2010
OJSC “WGC-1”	-	27,559
OJSC “Volzhskaya TGC”	-	16,268
OJSC “Bashkirenergo”	-	15,551
OJSC “RusHydro”	-	7,738
OJSC “Mosenergo”	-	5,782
OJSC “WGC-6”	-	5,600
OJSC “TGC-6”	-	5,438
OJSC “WGC-4”	-	4,140
OJSC “TGC-11”	-	3,401
OJSC “WGC-2”	-	1,222
OJSC “TGC-1”	-	1,117
OJSC “WGC-3”	-	969
JSC UES “GruzRosEnergo”	-	561
OJSC “RAO ES Vostoka”	-	555
OJSC “TGC-9”	-	429
OJSC “Kuzbassenergo”	-	385
OJSC “Sangtudinskaya GES-1”	-	320
OJSC “TGC-13”	-	307
OJSC “TGC-11 Holding”	-	163
Total	**-**	**97,505**
Loss on re-measurement	-	(6,896)
Total non-current assets held for sale	**-**	**90,609**

Non-current assets held for sale were included in the Transmission segment (Note 31).

As at 31 December 2010 all available-for-sale investments, except for shares of OJSC “IDGC Holding” and OJSC “Inter RAO UES”, in the total amount of RR 44,278 million and most of investments in associates, such as OJSC “WGC-1”, OJSC “TGC-6”, OJSC “TGC-11”, OJSC “Volzhskaya TGC” and JSC UES “GruzRosEnergo”, in the total amount of RR 53,227 million, were reclassified as held for sale under IFRS 5 “Non-current assets held for sale and discontinued operations” as the management of the Company had committed to a plan to transfer these assets during 2011 year to Inter RAO UES in exchange for ordinary shares of OJSC “Inter RAO UES” (Notes 8, 9).

Cumulative income recognised by 31 December 2010 in other comprehensive income relating to non-current assets held for sale (Note 17):

	31 December 2010
Revaluation reserve for property, plant and equipment of associates	10,749
Foreign currency translation reserve	34
Revaluation reserve for available-for-sale investments	29,702
Total	**40,485**

In March and May 2011 all the above-mentioned investments, except for JSC UES “GruzRosEnergo”, were transferred to Inter RAO UES in exchange for 1,883,043,160,666 its ordinary shares.

In accordance with the provisions of IFRS 5, non-current assets held for sale were re-measured at the date of de-recognition (transfer) to reflect the change in the value less costs to sell. A loss of RR 4,718 million, and corresponded deferred tax of RR 944 million was recognised in profit or loss in respect of re-measurement of investments in associated companies classified as held for sale. Decline in fair value of available-for-sale investments classified as held for sale was recognised in other comprehensive income in the amount of RR 4,810 million net of corresponding deferred tax in the amount of RR 1,203 million.

(in millions of Russian Roubles unless otherwise stated)

Note 16. Non-current assets held for sale (continued)

At the dates of the transaction, cumulative income recognised in other comprehensive income and related to the disposed assets held for sale amounting to RR 31,115 million was transferred to profit or loss as a gain on disposal of available-for-sale investments. A related deferred tax change in the amount of RR 6,223 million was recognised in the income tax expense for the year.

	Dates of disposal
Available-for-sale investments classified as held for sale	(38,222)
Investments in associates classified as held for sale	(41,165)
Fair value of consideration received	79,387
Result of the exchange transaction	-
Accumulated gain on available-for-sale investments recycled to profit or loss (related deferred tax liability of RR 6,223 million)	31,115
Gain on disposal of available-for-sale investments	**31,115**

Note 17. Equity

Share capital

	Number of shares issued and fully paid			
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Ordinary shares	1,255,948,128,393	1,233,561,333,552	627,974	616,781

As at 31 December 2011 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 January 2010, FGC UES completed and registered the additional share issue for the total amount of RR 40,024 million. As a result of this issue, the share capital was increased to RR 616,781 million and additional share premium recognised in the amount of RR 154 million.

In March 2011, FGC UES completed and registered the additional share issue for the total amount of RR 11,193 million. As a result of this issue, the share capital was increased to RR 627,974 million.

In July 2011, FGC UES started an additional share issue. The placement process started in September, but was only completed after the year end (Note 32). The amount of RR 2,220 million received for shares issued was included as at 31 December 2011 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES.

Treasury shares. Treasury shares represent 13,727,165 thousand of ordinary shares in the amount of RR 5,522 million as at 31 December 2011 and of RR 6,864 million as at 31 December 2010.

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

In 2011, treasury shares decreased by RR 1,342 million with the corresponding recognition of expense relating to share-based compensation (see below), since management plans to use treasury shares for the share option plan.

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

The Foreign currency translation reserve relates to the exchange differences arising on translation of the net assets of foreign associate.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Equity (continued)

Reserves comprise the following:

	31 December 2011	31 December 2010
Revaluation reserve (net of tax) for:		
- property, plant and equipment (Note 6)	312,298	313,525
- available-for-sale investments (Note 9)	1,925	7,257
Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale (Note 16)	-	40,485
Foreign currency translation reserve	100	-
Total reserves	**314,323**	**361,267**

Reserves for the year ended 31 December 2011 (net of tax):

	Revaluation reserve for:				
	property, plant and equipment (Note 6)	available-for-sale investments (Note 9)	Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale (Note 16)	Foreign currency translation reserve	Total reserves
As at 1 January 2011	**313,525**	**7,257**	**40,485**	**-**	**361,267**
Change in revaluation reserve for property, plant and equipment	(1,227)	-	-	-	**(1,227)**
Change in fair value of available-for-sale investments	-	(15,151)	(4,810)	-	**(19,961)**
Change in revaluation reserve for property, plant and equipment of associates (previously classified as non-current assets held for sale)	-	-	(10,749)	-	**(10,749)**
Accumulated loss / (gain) on available-for-sale investments recycled to profit or loss	-	9,819	(24,892)	-	**(15,073)**
Amounts relating to available-for-sale investments previously classified as non-current assets held for sale	-	-	(34)	34	-
Foreign currency translation difference (Note 8)	-	-	-	66	**66**
As at 31 December 2011	**312,298**	**1,925**	**-**	**100**	**314,323**

The total reduction in fair value of available-for-sale investments recognised in other comprehensive income in 2011 was:

	Notes	Amount of reduction	Related deferred tax	Amount of reduction net of deferred tax
Decline in fair value of available-for-sale investments classified as non-current assets held for sale	16	6,013	(1,203)	4,810
Decline in fair value of available-for-sale investments within accumulated reserve	9, 18	6,278	(946)	5,332
Decline in fair value of available-for-sale investments below cost	9	12,661	(2,842)	9,819
Total		**24,952**	**(4,991)**	**19,961**

The total increase in fair value of available-for-sale investments recognised in other comprechensive income in 2010 was RR 18,800 million including related deferred tax of RR 3,751 million.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Equity (continued)

Reserves for the year ended 31 December 2010 (net of tax):

	Revaluation reserve for:					
	property, plant and equipment (Note 6)	**available-for-sale investments (Note 9)**	**Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale (Note 16)**	**Merger reserve**	**Foreign currency translation reserve**	**Total reserves**
As at 1 January 2010	**325,590**	**21,919**	**-**	**(56,891)**	**56**	**290,674**
Change in revaluation reserve for property, plant and equipment	(1,316)	-	-	-	-	**(1,316)**
Gain on change of fair value of available-for-sale investments	-	15,049	-	-	-	**15,049**
Realised revaluation reserve for available-for-sale investments	-	(9)	-	-	-	**(9)**
Foreign currency translation difference (Note 8)	-	-	-	-	(22)	**(22)**
Amounts relating to non-current assets held for sale, recognised in other comprehensive income and accumulated in equity	(10,749)	(29,702)	40,485	-	(34)	-
Transfer of merger reserve to retained earnings	-	-	-	56,891	-	**56,891**
As at 31 December 2010	**313,525**	**7,257**	**40,485**	**-**	**-**	**361,267**

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 2011, the statutory net loss of the parent company, FGC UES, as reported in the published statutory financial statements, was RR 2,468 million (for the year ended 31 December 2010 the net profit was RR 58,088 million). At the Annual General Meeting in June 2011 the decision was approved to declare dividends for the year ended 31 December 2010 in the total amount of RR 2,578 million (RR 0.0020523650155 per share).

Share-based compensation. In February 2011, the Board of Directors approved an Option programme ("the Programme") in which the members of the Management Board and other employees of the Company can be participants. On 1 March 2011 13,569,041,046 options to purchase the Company's ordinary shares were allocated under the Programme. The treasury shares held by LLC "Index Energetiki – FGC UES" were used for this allocation.

Options granted vest over the period of three years and are exercisable during two years from the vesting date. In case of terminating employment at the initiative of the Company due to breaching certain employment duties by the employee the Programme participant will lose his right to purchase the shares.

All options were granted with an exercise price of RR 0.4065 per share. The total grant date fair value of stock options granted allowing updated forfeiture rate was RR 2,821 million.

(in millions of Russian Roubles unless otherwise stated)

Note 17. Equity (continued)

The Black-Scholes option valuation model is used for estimating the fair value of options. The significant inputs into the option valuation model were as follows:

	Awards granted during the year ended 31 December 2011	31 December 2010
Share price	RR 0.412	-
Expected volatility	45%	-
Risk-free interest rate	7.58%	-
Expected options life	5 years	-

Accounts payable to the shareholders of JSC "FGC UES". Accounts payable to the shareholders of FGC UES include dividends payable and payables for shares issued:

	31 December 2011	31 December 2010
Dividends payable	55	47
Accounts payable for shares issued	2,220	11,193
Total accounts payable to the shareholders of JSC "FGC UES"	**2,275**	**11,240**

Note 18. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax charge	(8,588)	(9,240)
Deferred income tax (charge) / credit	(5,287)	3,488
Total income tax expense	**(13,875)**	**(5,752)**

During the years ended 31 December 2011 and 31 December 2010 most entities of the Group were subject to tax rates of 20 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.

Profit before income tax for financial reporting purposes is reconciled to income tax expenses as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	**62,863**	**24,135**
Theoretical income tax charge at the statutory tax rate of 20 percent	(12,573)	(4,827)
Tax effect of items which are not deductible for taxation purposes	(1,245)	15
Unrecognised deferred tax assets	(57)	(940)
Total income tax	**(13,875)**	**(5,752)**

Deferred income 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 income tax purposes. Deferred income tax assets and liabilities were measured at 20 percent as at 31 December 2011 and 31 December 2010, the rates expected to be applicable when the asset or liability will reverse.

(in millions of Russian Roubles unless otherwise stated)

Note 18. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2011:

		Movements for the year		
	31 December 2011	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**1 January 2011**
Deferred income tax liabilities				
Property, plant and equipment	73,106	3,667	-	69,439
Investments in associates	71	1	-	70
Available-for-sale investments	10,059	10,499	(946)	506
Accounts receivable and prepayments	-	(241)	-	241
Non-current assets held for sale	-	(8,139)	(7,426)	15,565
Other deferred tax liabilities	63	31	-	32
Total deferred income tax liabilities	**83,299**	**5,818**	**(8,372)**	**85,853**
Deferred income tax assets				
Property, plant and equipment	(1,521)	29	-	(1,550)
Intangible assets	(519)	(388)	-	(131)
Long-term promissory notes	(1,496)	76	-	(1,572)
Accounts receivable and prepayments	(267)	561	-	(828)
Retirement benefit obligation	(391)	(1)	-	(390)
Current and non-current debt	(170)	(170)	-	-
Accounts payable and accruals	(179)	56	-	(235)
Other deferred tax assets	(164)	30	-	(194)
Tax losses	(2,414)	(781)	-	(1,633)
Unrecognised deferred tax assets	4,394	57	-	4,337
Total deferred income tax assets	**(2,727)**	**(531)**	**-**	**(2,196)**
Deferred income tax liabilities, net	**80,572**	**5,287**	**(8,372)**	**83,657**

The current portion of net deferred tax liabilities as at 31 December 2011 equaled RR 1,315 million and represented the amount of deferred tax liabilities to be settled during the year ended 31 December 2012 (as at 31 December 2010: RR 14,122 million).

Unrecognised deferred tax assets include tax losses carried forward in the amount of RR 2,414 million and deferred income tax assets on temporary differences arising in respect of loss-making subsidiaries. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

Tax losses carried forward in respect of which deferred tax assets were not recognised are presented by companies in the table below:

	31 December 2011	**31 December 2010**
OJSC “Nurenergo”	8,876	5,098
OJSC “Mobile gas-turbine electricity plants”	2,670	2,300
OJSC “The principle electricity transmission service company of Unified National Electrical Network”	318	259
OJSC “Specialised electricity transmission service company of Unified National Electrical Network”	-	170
Others	206	338
Total tax losses carried forward	**12,070**	**8,165**

The tax losses expire 10 years after their origination. These tax losses expire mostly during 2012-2020, RR 143 million expire during the year 2012, RR 2,107 million with terms from 2 to 5 years (during 2013-2016) and RR 9,820 million with term over 5 years (during 2017-2021).

(in millions of Russian Roubles unless otherwise stated)

Note 18. Income tax (continued)

Deferred income tax assets and liabilities for the year ended 31 December 2010:

		Movements for the year		
	31 December 2010	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**1 January 2010**
Deferred income tax liabilities				
Property, plant and equipment	69,439	(926)	-	70,365
Investments in associates	70	(2,395)	(9,048)	11,513
Available-for-sale investments	506	-	(2,757)	3,263
Accounts receivable and prepayments	241	235	-	6
Non-current assets held for sale	15,565	-	15,565	-
Other deferred tax liabilities	32	1	-	31
Total deferred income tax liabilities	**85,853**	**(3,085)**	**3,760**	**85,178**
Deferred income tax assets				
Property, plant and equipment	(1,550)	(389)	-	(1,161)
Long-term promissory notes	(1,572)	(452)	-	(1,120)
Accounts receivable and prepayments	(828)	124	-	(952)
Retirement benefit obligation	(390)	(69)	-	(321)
Accounts payable and accruals	(235)	(221)	-	(14)
Other deferred tax assets	(325)	(38)	-	(287)
Tax losses	(1,633)	(298)	-	(1,335)
Unrecognised deferred tax assets	4,337	940	-	3,397
Total deferred income tax assets	**(2,196)**	**(403)**	**-**	**(1,793)**
Deferred income tax liabilities, net	**83,657**	**(3,488)**	**3,760**	**83,385**

(in millions of Russian Roubles unless otherwise stated)

Note 19. Non-current debt

	Currency	Effective interest rate	Due	31 December 2011	31 December 2010
Certified interest-bearing non-convertible bearer bonds, Series 19	RR	7.95%	06.07.2023	20,710	-
Certified interest-bearing non-convertible bearer bonds, Series 18	RR	8.50%	27.11.2023	15,066	-
Certified interest-bearing non-convertible bearer bonds, Series 10	RR	7.75%	15.09.2020	10,202	10,200
Certified interest-bearing non-convertible bearer bonds, Series 06	RR	7.15%	15.09.2020	10,186	10,184
Certified interest-bearing non-convertible bearer bonds, Series 08	RR	7.15%	15.09.2020	10,186	10,184
Certified interest-bearing non-convertible bearer bonds, Series 15	RR	8.75%	12.10.2023	10,156	-
Certified interest-bearing non-convertible bearer bonds, Series 11	RR	7.99%	16.10.2020	10,140	10,138
Certified interest-bearing non-convertible bearer bonds, Series 13	RR	8.50%	22.06.2021	9,993	-
Certified interest-bearing non-convertible bearer bonds, Series 09	RR	7.99%	16.10.2020	5,070	5,069
Certified interest-bearing non-convertible bearer bonds, Series 07	RR	7.50%	16.10.2020	5,066	5,065
Certified interest-bearing non-convertible bearer bonds, Series 04	RR	7.30%	06.10.2011	-	6,102
OJSC “Gazprombank”	RR	9.50%	13.10.2014	15,000	-
OJSC “Gazprombank”	RR	9.50%	22.11.2014	10,000	-
Finance lease liabilities	RR	9.50%	23.03.2018	849	-
Total non-current debt				**132,624**	**56,942**
Less: current portion of non-current bonds				(1,775)	(6,942)
Less: current portion of finance lease liabilities				(71)	-
Non-current debt				**130,778**	**50,000**

In September and October 2010, the Group issued certified interest-bearing non-convertible bearer bonds of Series 06-11 with an interest rate fixed for the first 6 coupons for Series 06 and 08, for the first 10 coupons for Series 07 and 10 and for the first 14 coupons for Series 09 and 11. The interest rate for other coupons will be determined before the end of the previous coupon period.

In July, October and December 2011, the Group issued certified interest-bearing non-convertible bearer bonds of Series 13, 19, 15 and 18 with an interest rate fixed for all 20 coupons for Series 13, for the first 14 coupons for Series 19, for the first 6 coupons for Series 15 and for the first 5 coupons for Series 18. The interest rate for other coupons will be determined before the end of the previous coupon period.

The bondholders have the option to redeem the bonds for cash instead of accepting the revised terms. The interest is payable every six months during the terms of the bonds.

As at 31 December 2011 the estimated fair value of total non-current debt (including the current portion) was RR 128,351 million (as at 31 December 2010: RR 56,048 million), which was estimated using the market prices for quoted FGC UES bonds as at 31 December 2011.

As at 31 December 2011 the Group had long-term undrawn committed financing facilities of RR 102,500 million (as at 31 December 2010: RR 15,000 million) which could be used for the general purposes of the Group.

(in millions of Russian Roubles unless otherwise stated)

Note 19. Non-current debt (continued)

Finance lease. Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments as at 31 December 2011	**150**	**749**	**307**	**1,206**
Less future finance charges	(79)	(271)	(7)	(357)
Present value of minimum lease payments as at 31 December 2011	**71**	**478**	**300**	**849**
Minimum lease payments as at 31 December 2010	**-**	**-**	**-**	**-**
Less future finance charges	-	-	-	-
Present value of minimum lease payments as at 31 December 2010	**-**	**-**	**-**	**-**

Leased assets with carrying amount disclosed in Note 6 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

Note 20. Retirement benefit obligations

	Year ended 31 December 2011	Year ended 31 December 2010
Net liability in the Consolidated Statement of Financial Position as at 1 January	**4,318**	**3,439**
Net periodical cost	879	1,152
Benefits paid by the plan	(511)	(273)
Net liability in the Consolidated Statement of Financial Position as at 31 December	**4,686**	**4,318**

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 2010.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2011 and 31 December 2010.

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

	31 December 2011	31 December 2010
Total present value of defined benefit obligations	4,735	5,148
Net actuarial gains / (losses) not recognised in the Consolidated Statement of Financial Position	445	(142)
Unrecognised past service cost	(494)	(688)
Liability recognised in the Consolidated Statement of Financial Position	**4,686**	**4,318**

(in millions of Russian Roubles unless otherwise stated)

Note 20. Retirement benefit obligations (continued)

The amounts recognised in profit or loss are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Interest cost	401	412
Current service cost	308	338
Net actuarial (gains) / losses recognised in the period	(24)	60
Recognised past service cost	194	460
Curtailments	-	(118)
Net cost recognised in the Consolidated Statement of Comprehensive Income	**879**	**1,152**

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

	Year ended 31 December 2011	Year ended 31 December 2010
Defined benefit obligations as at 1 January	**5,148**	**4,544**
Benefits paid by the plan	(511)	(273)
Current service costs	308	338
Interest cost	401	412
Actuarial gains	(611)	(182)
Past service cost	-	460
Curtailments	-	(151)
Present value of defined benefit obligations as at 31 December	**4,735**	**5,148**

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

(i) Financial assumptions

	31 December 2011	31 December 2010
Discount rate	8.1%	7.8%
Inflation rate	5.1%	5.7%
Future salary increases	5.1%	6.7%
Future pension increase	5.1%	5.7%

(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 as at 31 December 2010.

Mortality table: Russian population mortality table 1998.

The expected contributions under voluntary pension programs in 2012 are expected in the amount of RR 389 million.

Experience adjustments on benefit obligation are as follows:

	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Total present value of defined benefit obligations	4,735	5,148	4,544	4,262	3,841
Deficit in plan	(4,735)	(5,148)	(4,544)	(4,262)	(3,841)
Experience adjustment on defined benefit obligations	123	(197)	323	808	376

(in millions of Russian Roubles unless otherwise stated)

Note 21. Current debt and current portion of non-current debt

	Effective interest rate	31 December 2011	31 December 2010
OJSC "Kalmenergosbyt"	7.0%	106	-
OJSC "RusHydro"	17.0%	50	50
OJSC "IDGC Holding"	14.1%	-	505
Current portion of non-current bonds (Note 19)	7.15%-8.75%	1,775	6,942
Current portion of finance lease liabilities	9.5%	71	-
Total current debt and current portion of non-current debt		**2,002**	**7,497**

As at 31 December 2011 and 31 December 2010 the Group had short-term undrawn committed financing facilities of RR 15,000 million which could be used for the general purposes of the Group.

Note 22. Accounts payable and accrued charges

	31 December 2011	31 December 2010
Trade payables	12,374	14,499
Accounts payable to construction companies and suppliers of property, plant and equipment	16,699	10,844
Other creditors and accrued liabilities	1,568	1,916
Total financial liabilities	**30,641**	**27,259**
Advances received	11,013	11,744
Accounts payable to employees	1,172	405
Other taxes payable	1,364	951
VAT related to advances to suppliers	343	193
Other provisions for liabilities and charges	441	-
Total accounts payable and accrued charges	**44,974**	**40,552**

Note 23. Revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Transmission fee	134,754	109,371
Electricity sales	2,246	3,070
Connection services	2,178	609
Grids repair and maintenance services	393	280
Total revenue	**139,571**	**113,330**

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

	Year ended 31 December 2011	Year ended 31 December 2010
Write-off of accounts payable *	2,753	1
Insurance compensation	986	733
Communication lines repair and maintenance	839	494
Penalties and fines	772	500
Design works	553	743
Rental income	450	235
Research and development services	434	682
Communication services	249	216
Other income	757	880
Total other operating income	**7,793**	**4,484**

* Accounts payable in the amount of RR 2,747 million relating to OJSC "Nurenergo" were written off as these amounts had been recognised in 2003-2006 years and the relevant limitation period had expired in 2011, according to Russian legislation. There are no claims to OJSC "Nurenergo" concerned with these payables.

(in millions of Russian Roubles unless otherwise stated)

Note 24. Operating expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Depreciation of property, plant and equipment	33,187	30,185
Employee benefit expenses and payroll taxes	24,046	20,114
Purchased electricity	13,781	15,942
Accrual / (reversal) of allowance for doubtful debtors	4,305	(2,164)
Repair and maintenance services (by contractors)	3,977	4,427
Materials for repair	2,326	2,868
Rent	2,314	1,944
Business trips and transportation expenses	2,099	1,734
Security services	1,680	1,234
Other materials	1,435	1,055
Electricity transit via foreign countries	1,350	784
Consulting, legal and auditing services	1,323	729
Taxes, other than on income	1,141	933
Research and development	1,064	755
Insurance	972	946
Information system maintenance	955	1,048
Amortisation of intangible assets	865	869
Communication service	674	627
Fuel	561	576
(Gain) / loss on disposal of property, plant and equipment	(617)	910
Other	3,312	2,357
Total operating expenses	**100,750**	**87,873**

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

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

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

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	17,926	16,049
Social security contributions to the Pension Fund	2,995	2,076
Social security contributions to other state non-budgetary funds	904	837
Pension costs – defined benefit plans (Note 20)	879	1,152
Share-based compensation (Note 17)	1,342	-
Total employee benefit expenses and payroll taxes	**24,046**	**20,114**

Note 25. Finance income

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	3,834	5,546
Foreign currency exchange differences	61	6
Dividends	45	255
Other finance income	17	-
Total finance income	**3,957**	**5,807**

(in millions of Russian Roubles unless otherwise stated)

Note 26. Finance costs

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expense	5,895	1,906
Foreign currency exchange differences	72	-
Other finance costs	144	239
Total finance cost	**6,111**	**2,145**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 6)	(5,833)	(1,526)
Total finance cost recognised in profit or loss	**278**	**619**

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

	Year ended 31 December 2011	Year ended 31 December 2010
Weighted average number of ordinary shares (millions of shares)	1,247,984	1,228,079
Profit attributable to the shareholders of JSC “FGC UES” (millions of RR)	49,139	19,009
Weighted average earning per share – basic and diluted (in RR)	**0.039**	**0.015**

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.

As at 31 December 2011 the Group's subsidiary, OJSC "Nurenergo" was engaged in a number of litigations involving claims amounting in total to RR 4,947 million (as at 31 December 2010: RR 3,217 million), for collection of amounts payable for electricity purchased by OJSC "Nurenergo". The amount is recorded within accounts payable. No additional provision has been made as the Group's management believes that these claims are unlikely to result in any further liabilities.

Tax contingency. Russian tax and customs legislation is subject to varying interpretation when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by the relevant regional and federal authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 2011 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 Consolidated Financial Statements. The Group estimates that possible tax claims in respect of certain open tax positions of the Group companies primarily related to revenue recognition for taxation purposes could amount to as much as RR 1,309 million if the tax positions would be successfully challenged (as at 31 December 2010: RR 5,616 million of the open tax positions primarily related to recoverability of VAT and revenue recognition for taxation purposes).

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.

(in millions of Russian Roubles unless otherwise stated)

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

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 these Consolidated Financial Statements.

Capital commitments related to construction of property, plant and equipment. Future capital expenditures for which contracts have been signed amount to RR 351,189 million as at 31 December 2011 (as at 31 December 2010: RR 389,228 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 16,699 million as at 31 December 2011 (as at 31 December 2010: RR 10,844 million) (Note 22).

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 minimise or eliminate possible negative consequences of the risks for the financial results of the Group. 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 2011	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Available-for-sale investments (Note 9)	-	69,979	-	69,979
Long-term promissory notes (Note 10)	14,928	-	-	14,928
Other non-current assets (Note 11)	116	-	-	116
Cash and cash equivalents (Note 12)	25,627	-	-	25,627
Bank deposits (Note 13)	1,184	-	-	1,184
Short-term promissory notes (Note 10)	20,737	-	-	20,737
Loans given	448	-	-	448
Accounts receivable (Note 14)	12,968	-	-	12,968
Total financial assets	**76,008**	**69,979**	**-**	**145,987**
Financial liabilities				
Non-current debt (Note 19)	-	-	130,778	130,778
Accounts payable to the shareholders of JSC "FGC UES" (Note 17)	-	-	2,275	2,275
Current debt and current portion of non-current debt (Note 21)	-	-	2,002	2,002
Accounts payable and accrued charges (Note 22)	-	-	30,641	30,641
Total financial liabilities	**-**	**-**	**165,696**	**165,696**

(in millions of Russian Roubles unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

31 December 2010	Loans and receivables	Investments available for sale	Other financial liabilities	Total
Financial assets				
Available-for-sale investments (Note 9)	-	9,531	-	9,531
Long-term promissory notes (Note 10)	11,046	-	-	11,046
Other non-current assets (Note 11)	1,707	-	-	1,707
Cash and cash equivalents (Note 12)	13,573	-	-	13,573
Bank deposits (Note 13)	4,606	-	-	4,606
Short-term promissory notes (Note 10)	43,156	-	-	43,156
Loans given	18	-	-	18
Accounts receivable (Note 14)	11,346	-	-	11,346
Non-current assets held for sale (Note 16)	-	44,278	-	44,278
Total financial assets	**85,452**	**53,809**	**-**	**139,261**
Financial liabilities				
Non-current debt (Note 19)	-	-	50,000	50,000
Accounts payable to the shareholders of JSC “FGC UES” (Note 17)	-	-	11,240	11,240
Current debt and current portion of non-current debt (Note 21)	-	-	7,497	7,497
Accounts payable and accrued charges (Note 22)	-	-	27,259	27,259
Total financial liabilities	**-**	**-**	**95,996**	**95,996**

(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 2011 the interest rates on the borrowing are fixed.

(iii) Price risk. Equity price risk arises from available-for-sale investments. 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 program needs. Transactions in equity products are monitored and authorised by the Group’s treasury department. The total amount of investments available-for-sale exposed to the market risk equals RR 69,979 million. As at 31 December 2011, if equity prices at that date had been 10% higher (lower), with all other variables held constant, the Group’s comprehensive income and revaluation reserve in equity would increase (decrease) by RR 290 million before tax, and profit before tax would increase (decrease) by RR 6,708 million. As at 31 December 2010, if equity prices at that date had been 10% higher (lower) with all other variables held constant, the Group’s comprehensive income and revaluation reserve in equity would increase (decrease) by RR 5,381 million, but profit before tax would not be affected.

(in millions of Russian Roubles unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

(b) Credit risk.

The amounts exposed to credit risk are as follows:

31 December 2011	Long-term promissory notes (Note 10)	Other non-current assets (Note 11)	Cash and cash equivalents (Note 12)	Bank deposits (Note 13)	Short-term promissory notes (Note 10)	Loans given	Accounts receivable (Note 14)
Not overdue, not impaired	5,731	100	25,627	1,184	20,737	5	9,452
Not overdue, but impaired:	9,197	-	-	-	-	-	-
- gross amount	*12,022*	*90*	-	-	-	-	*1,536*
- less impairment provision	*(2,825)*	*(90)*	-	-	-	-	*(1,536)*
Overdue, but not impaired	-	16	-	-	-	443	3,516
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount	-	*18*	-	-	-	*15*	*5,942*
- less impairment provision	-	*(18)*	-	-	-	*(15)*	*(5,942)*
Total amount	**14,928**	**116**	**25,627**	**1,184**	**20,737**	**448**	**12,968**

31 December 2010	Long-term promissory notes (Note 10)	Other non-current assets (Note 11)	Cash and cash equivalents (Note 12)	Bank deposits (Note 13)	Short-term promissory notes (Note 10)	Loans given	Accounts receivable (Note 14)
Not overdue, not impaired	2,580	675	13,573	4,606	42,198	18	8,335
Not overdue, but impaired:	8,466	-	-	-	-	-	-
- gross amount	*12,022*	*49*	-	-	-	-	*442*
- less impairment provision	*(3,556)*	*(49)*	-	-	-	-	*(442)*
Overdue, but not impaired	-	1,032	-	-	958	-	3,011
Overdue and impaired:	-	-	-	-	-	-	-
- gross amount		*175*	-	-	*47*	-	*3,172*
- less impairment provision		*(175)*	-	-	*(47)*	-	*(3,172)*
Total amount	**11,046**	**1,707**	**13,573**	**4,606**	**43,156**	**18**	**11,346**

As at 31 December 2011 the amount of financial assets, which were exposed to credit risk, was RR 76,008 million (as at 31 December 2010: RR 85,452 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. 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.

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.

(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.

(in millions of Russian Roubles unless otherwise stated)

Note 29. Financial instruments and financial risks (continued)

	Less than 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
As at 31 December 2011					
Non-current and current debt and interest payable (Notes 19, 21)	12,735	10,804	52,280	148,079	223,898
Accounts payable to the shareholders of JSC "FGC UES" (Note 17)	2,275	-	-	-	2,275
Accounts payable and accrued charges (Note 22)	30,641	-	-	-	30,641
Total as at 31 December 2011	**45,651**	**10,804**	**52,280**	**148,079**	**256,814**
As at 31 December 2010					
Non-current and current debt and interest payable (Notes 19, 21)	10,457	3,779	11,336	67,948	93,520
Accounts payable to the shareholders of JSC "FGC UES" (Note 17)	11,240	-	-	-	11,240
Accounts payable and accrued charges (Note 22)	27,259	-	-	-	27,259
Total as at 31 December 2010	**48,956**	**3,779**	**11,336**	**67,948**	**132,019**

(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 of trade receivables less provision for doubtful debtors 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 consolidated 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 financial instruments of the Group carried at fair value represent available-for-sale investments (Note 9). The fair value of the available-for-sale investments is determined by the quoted prices in active markets for identical financial assets.

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 cannot 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.

As at 31 December 2011 several companies of the Group namely OJSC "Nurenergo", OJSC "Mobile gas-turbine electricity plants", OJSC "The Kuban trunk grids", OJSC "Engineering and construction management centre of Unified Energy System" and OJSC "The principle electricity transmission service company of Unified National Electrical Network" were not in compliance with all requirements mentioned above. Management of the Group is currently implementing measures to ensure compliance with all legislation requirements within a short period.

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 authorised 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 RAR. The Group should ensure that its gearing ratio, being the total debt divided by the total equity, does not exceed 0.50. As at 31 December 2011 the Company's gearing ratio calculated under RAR was 0.15 (as at 31 December 2010: 0.07).

(in millions of Russian Roubles unless otherwise stated)

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 “the 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 – FGC UES”, OJSC “The Kuban trunk grids” and OJSC “The Tomsk trunk grids”.

FGC UES itself maintains the high voltage electricity transmission network.

Maintenance (service) subsidiaries – OJSC “The principle electricity transmission service company of UNEN” and OJSC “Specialised electricity transmission service company of UNEN” – are engaged in maintenance services (repair and restoration) for the Unified National Electric Network.

Assets and liabilities of 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 Index Energetiki is only of a legal nature and the management of the Group analyses information on financial assets of these two entities simultaneously, the operations and balances relating to 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 RAR as net profit divided by net assets. Accordingly, the measure of transmission segment profit or loss analysed by the CODM is net profit of segment based on the statutory financial statements prepared according to RAR. The other information provided to the CODM is also based on statutory financial statements prepared according to RAR.

	Transmission segment – based on statutory financial statements prepared according to RAR	
	Year ended 31 December 2011	**Year ended 31 December 2010**
Revenue from external customers	137,450	112,191
Intercompany revenue	337	230
Total revenue	**137,787**	**112,421**
Depreciation and amortisation *	40,092	32,279
Interest income	4,253	6,011
Interest expenses	69	350
Current income tax	8,413	9,298
(Loss) / profit for the year	(15,597)	66,428
Capital expenditure	166,852	117,901

(in millions of Russian Roubles unless otherwise stated)

Note 31. Segment information (continued)

	31 December 2011	31 December 2010
Total reportable segment assets	1,072,677	925,118
Total reportable segment liabilities	233,819	161,535

* Depreciation charge under RAR is based on useful lives determined by statutory regulations.

	Year ended 31 December 2011	Year ended 31 December 2010
Total revenue from segment (RAR)	**137,787**	**112,421**
Reclassification between revenue and other income	(367)	(1,932)
Non-segmental revenue	2,488	3,071
Elimination of intercompany revenue	(337)	(230)
Total revenue (IFRS)	**139,571**	**113,330**

	Year ended 31 December 2011	Year ended 31 December 2010
(Loss) / profit for the year (RAR)	**(15,597)**	**66,428**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	8,129	2,823
(Impairment) / reversal of impairment of property, plant and equipment	(808)	1,362
Financial instruments		
Reversal of re-measurement of available-for-sale investments and investments in associates	36,645	(39,885)
Adjustment to the gain on disposal of available-for-sale investments and investments in associates	28,927	(344)
Impairment of available-for-sale investments	(12,661)	(235)
Loss on re-measurement of assets held for sale	(4,718)	(6,896)
Discounting of promissory notes	(764)	(1,841)
Consolidation		
Reversal of impairment of investments in subsidiaries	1,518	-
Reversal of impairment / (impairment) of intercompany promissory notes	13,037	(7,607)
Reversal of re-measurement of treasury shares	1,200	(659)
Unrealised profit adjustment	(920)	(558)
Other		
Write-off of research and development to expenses	(656)	(500)
Share of result of associates	8	(833)
Loss on dilution of share in associates	-	(2,790)
Adjustment to allowance for doubtful debtors	(4,316)	6,065
Share-based compensation	(1,342)	-
Accrual of retirement benefit obligations	(236)	(541)
Deferred tax adjustment	614	7,150
Reversal / (accrual) of expenses recognised in different accounting period	843	(644)
Other adjustments	383	1,081
Non-segmental other operating loss	(298)	(3,193)
Profit for the year (IFRS)	**48,988**	**18,383**

(in millions of Russian Roubles unless otherwise stated)

Note 31. Segment information (continued)

	31 December 2011	31 December 2010
Total reportable segment assets (RAR)	**1,072,677**	**925,118**
Property, plant and equipment		
Adjustment to the carrying value of property, plant and equipment	147,661	223,284
Reversal of impairment of property, plant and equipment	37	845
Recognition of property, plant and equipment under finance lease	861	-
Financial instruments		
Reversal of impairment of investments in associates	-	38,440
Adjustment to cost of investments in associates	(62)	(40,699)
Adjustment to cost of available-for-sale investments	(3,881)	351
Discounting of promissory notes	(3,867)	(3,103)
Consolidation		
Reversal of impairment of investments in subsidiaries	7,098	5,580
Reversal of impairment of intercompany promissory notes	16,703	3,666
Reversal of re-measurement of treasury shares	(3,838)	(5,038)
Unrealised profit adjustment	(2,020)	(1,201)
Elimination of investments in subsidiaries	(23,462)	(23,462)
Elimination of intercompany balances	(55,928)	(53,714)
Other		
Write-off of research and development to expenses	(2,260)	(1,604)
Adjustment to allowance for doubtful debtors	2,809	7,125
Re-measurement of assets held for sale	-	(6,896)
Deferred tax assets adjustment	(3,895)	(4,975)
Netting of VAT recoverable and payable	(6,701)	(8,592)
Netting of advances and payables to construction companies	(1,043)	-
Other adjustments	1,163	794
Non-segmental assets	21,625	15,729
Total assets (IFRS)	**1,163,677**	**1,071,648**

	31 December 2011	31 December 2010
Total reportable segment liabilities (RAR)	**233,819**	**161,535**
Netting of VAT recoverable and payable	(6,701)	(8,592)
Netting of advances and payables to construction companies	(1,043)	-
Recognition of finance lease liabilities	849	-
Accrual of retirement benefit obligations	4,495	4,105
Deferred tax liabilities adjustment	71,515	77,335
Accrual of payables recognised in another accounting period	769	1,019
Other adjustments	136	(42)
Non-segmental liabilities	17,659	15,898
Elimination of intercompany balances	(55,928)	(53,714)
Total liabilities (IFRS)	**265,570**	**197,544**

Note 31. Segment information (continued)

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

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

Information on revenue 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 does not have any significant revenue 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 the RF. The amounts of revenue from such entities are disclosed in Note 5. The Group has no other major customers with turnover over 10 percent of the Group revenue.

Note 32. Events after the reporting period

Additional share issue. In March 2012, the Company completed and registered an additional share issue. As the result of this share issue 4,438,530,347 ordinary shares with a nominal value of RR 0.5 per share were placed, and the Company received cash in the amount of RR 2,220 million. As a result of the exercise of the state’s pre-emptive rights during the share issue, the interest of the state in the Company increased from 79.48 to 79.55 per cent. Cash proceeds from the share issue will be used for financing of the investment program of the Company.