# JSC “FGC UES”

**CONSOLIDATED FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU**

**FOR THE YEAR ENDED 31 DECEMBER 2012**

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**Notes to the Consolidated Financial Statements**

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# INDEPENDENT AUDITOR'S REPORT

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

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 2012, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union, 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*

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.

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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union.

ZAO PricewaterhouseCoopers Audit

22 April 2013

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## JSC "FGC UES"

**Consolidated Statement of Financial Position**
(in millions of Russian Roubles unless otherwise stated)

| | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 1,096,535 | 980,677 |
| Intangible assets | 7 | 9,319 | 6,973 |
| Investments in associates | 8 | 1,403 | 910 |
| Available-for-sale investments | 9 | 50,617 | 69,979 |
| Long-term promissory notes | 10 | 1,457 | 14,928 |
| Other non-current assets | 11 | 4,498 | 1,039 |
| **Total non-current assets** | | **1,163,829** | **1,074,506** |
| **Current assets** | | | |
| Cash and cash equivalents | 12 | 24,056 | 25,627 |
| Bank deposits | 13 | 980 | 1,184 |
| Short-term promissory notes | 10 | 23,380 | 20,737 |
| Loans given | | 38 | 448 |
| Accounts receivable and prepayments | 14 | 38,808 | 32,944 |
| Income tax prepayments | | 2,143 | 1,911 |
| Inventories | 15 | 7,007 | 6,320 |
| **Total current assets** | | **96,412** | **89,171** |
| **TOTAL ASSETS** | | **1,260,241** | **1,163,677** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital: Ordinary shares | 16 | 630,193 | 627,974 |
| Treasury shares | 16 | (4,917) | (5,522) |
| Share premium | 16 | 10,501 | 10,501 |
| Reserves | 16 | 313,117 | 314,323 |
| Accumulated deficit | | (41,831) | (49,962) |
| **Equity attributable to shareholders of FGC UES** | | **907,063** | **897,314** |
| Non-controlling interest | | 733 | 793 |
| **Total equity** | | **907,796** | **898,107** |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 17 | 80,615 | 80,572 |
| Non-current debt | 18 | 193,200 | 130,778 |
| Retirement benefit obligations | 19 | 5,164 | 4,686 |
| **Total non-current liabilities** | | **278,979** | **216,036** |
| **Current liabilities** | | | |
| Accounts payable to shareholders of FGC UES | 16 | 3,257 | 2,275 |
| Current debt and current portion of non-current debt | 20 | 23,218 | 2,002 |
| Accounts payable and accrued charges | 21 | 46,816 | 44,974 |
| Income tax payable | | 175 | 283 |
| **Total current liabilities** | | **73,466** | **49,534** |
| **Total liabilities** | | **352,445** | **265,570** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,260,241** | **1,163,677** |

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

22 April 2013

Chairman of the Management Board — O.M. Budargin

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

The accompanying notes on pages 9 to 43 are an integral part of these Consolidated Financial Statements

**Consolidated Statement of Comprehensive Income**
(in millions of Russian Roubles unless otherwise stated)

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| Revenues | 22 | 140,313 | 139,571 |
| Other operating income | 22 | 3,543 | 7,793 |
| Operating expenses | 23 | (110,630) | (100,750) |
| Gain on disposal of available-for-sale investments | 24 | - | 31,115 |
| Loss on re-measurement of assets held for sale | 24 | - | (4,718) |
| Reversal of impairment / (impairment) of property, plant and equipment, net | 6 | 53 | (1,174) |
| **Operating profit** | | **33,279** | **71,837** |
| Finance income | 25 | 4,113 | 3,957 |
| Finance costs | 26 | (214) | (278) |
| Impairment of available-for-sale investments | 9 | (18,941) | (12,661) |
| Impairment of promissory notes, net | 10 | (9,772) | - |
| Reversal of impairment of investments in associates | 8 | 313 | - |
| Share of result of associates | 8 | 21 | 8 |
| **Profit before income tax** | | **8,799** | **62,863** |
| Income tax | 17 | (1,756) | (13,875) |
| **Profit for the year** | | **7,043** | **48,988** |
| **Other comprehensive income** | | | |
| Change in fair value of available-for-sale investments | 9, 16 | (19,362) | (24,952) |
| Accumulated gain on available-for-sale investments recycled to profit or loss | 24 | - | (31,115) |
| Impairment of available-for-sale investments recycled to profit or loss | 9, 16 | 18,941 | 12,661 |
| Change in revaluation reserve for property, plant and equipment in associates | 8 | 209 | - |
| Foreign currency translation difference | 8 | (50) | 66 |
| Income tax recorded directly in other comprehensive income | 17 | 84 | 8,372 |
| **Other comprehensive loss for the year, net of income tax** | | **(178)** | **(34,968)** |
| **Total comprehensive income for the year** | | **6,865** | **14,020** |
| **Profit / (loss) attributable to:** | | | |
| Shareholders of FGC UES | 27 | 7,103 | 49,139 |
| Non-controlling interest | | (60) | (151) |
| **Total comprehensive income / (loss) attributable to:** | | | |
| Shareholders of FGC UES | | 6,925 | 14,171 |
| Non-controlling interest | | (60) | (151) |
| **Earning per ordinary share for profit attributable to the shareholders of FGC UES – basic and diluted (in Russian Roubles)** | 27 | **0.006** | **0.040** |

**Consolidated Statement of Cash Flows**
(in millions of Russian Roubles unless otherwise stated)

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| **Profit before income tax** | | **8,799** | **62,863** |
| *Adjustments to reconcile profit before income tax to net cash provided by operations* | | | |
| Depreciation of property, plant and equipment | 23 | 43,908 | 33,187 |
| Loss / (gain) on disposal of property, plant and equipment | 23 | 1,210 | (617) |
| Amortisation of intangible assets | 23 | 571 | 865 |
| (Reversal of impairment) / impairment of property, plant and equipment, net | 6 | (53) | 1,174 |
| Impairment of available-for-sale investments | 9 | 18,941 | 12,661 |
| Impairment of promissory notes, net | 10 | 9,772 | - |
| Reversal of impairment of investments in associates | 8 | (313) | - |
| Gain on disposal of available-for-sale investments | 24 | - | (31,115) |
| Loss on re-measurement of assets held for sale | 24 | - | 4,718 |
| Share of result of associates | 8 | (21) | (8) |
| (Reversal) / accrual of allowance for doubtful debtors | 23 | (1,405) | 4,305 |
| Write-off of accounts payable | 22 | (51) | (2,753) |
| Share-based compensation | 16, 23 | 605 | 1,342 |
| Finance income | 25 | (4,113) | (3,957) |
| Finance costs | 26 | 214 | 278 |
| Other non-cash operating expense | | 14 | 69 |
| **Operating cash flows before working capital changes and income tax paid** | | **78,078** | **83,012** |
| *Working capital changes:* | | | |
| Increase in accounts receivable and prepayments | | (8,293) | (6,828) |
| Increase in inventories | | (689) | (753) |
| Increase in other non-current assets | | (288) | (12) |
| Increase in accounts payable and accrued charges | | 2,951 | 2,662 |
| Increase in retirement benefit obligations | | 517 | 447 |
| Income tax paid | | (1,970) | (9,883) |
| **Net cash generated by operating activities** | | **70,306** | **68,645** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, plant and equipment | | (150,431) | (153,471) |
| Proceeds from disposal of property, plant and equipment | | 1,309 | 1,431 |
| Purchase of intangible assets | | (2,917) | (1,649) |
| Purchase of promissory notes | | (52,000) | (52,300) |
| Redemption of promissory notes | | 55,535 | 75,098 |
| Investment in bank deposits | | (3,520) | (6,386) |
| Redemption of bank deposits | | 3,724 | 9,808 |
| Dividends received | | 20 | 45 |
| Interest received | | 2,569 | 2,681 |
| **Net cash used in investing activities** | | **(145,711)** | **(124,743)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from share issuance | 16 | 3,247 | 2,220 |
| Proceeds from non-current borrowings | | 82,500 | 80,000 |
| Proceeds from current borrowings | | - | 105 |
| Repayment of current borrowings | | (105) | (6,505) |
| Repayment of lease | | (150) | (126) |
| Dividends paid | | - | (2,543) |
| Interest paid | | (11,658) | (4,999) |
| **Net cash generated by financing activities** | | **73,834** | **68,152** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(1,571)** | **12,054** |
| **Cash and cash equivalents at the beginning of the year** | 12 | **25,627** | **13,573** |
| **Cash and cash equivalents at the end of the year** | 12 | **24,056** | **25,627** |

## JSC "FGC UES"

**Consolidated Statement of Changes in Equity**
(in millions of Russian Roubles unless otherwise stated)

| | | Attributable to shareholders of FGC UES | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Notes** | **Share capital** | **Share premium** | **Treasury shares** | **Reserves** | **Accumu-lated deficit** | **Total** | **Non-controlling interest** | **Total equity** |
| **As at 1 January 2012** | | **627,974** | **10,501** | **(5,522)** | **314,323** | **(49,962)** | **897,314** | **793** | **898,107** |
| **Comprehensive income for the year** | | | | | | | | | |
| Profit / (loss) for the year | | - | - | - | - | 7,103 | **7,103** | (60) | **7,043** |
| ***Other comprehensive income, net of related income tax*** | | | | | | | | | |
| Change in revaluation reserve for property, plant and equipment | 16 | - | - | - | (1,028) | 1,028 | **-** | - | **-** |
| Change in revaluation reserve for property, plant and equipment of associates | 8, 16 | - | - | - | 209 | - | **209** | - | **209** |
| Change in fair value of available-for-sale investments | 9, 16 | - | - | - | (15,489) | - | **(15,489)** | - | **(15,489)** |
| Accumulated loss on available-for-sale investments recycled to profit or loss | 9, 16 | - | - | - | 15,152 | - | **15,152** | - | **15,152** |
| Foreign currency translation difference | 8, 16 | - | - | - | (50) | - | **(50)** | - | **(50)** |
| ***Total other comprehensive income / (loss)*** | | ***-*** | ***-*** | ***-*** | ***(1,206)*** | ***1,028*** | ***(178)*** | ***-*** | ***(178)*** |
| **Total comprehensive income / (loss) for the year** | | - | - | - | (1,206) | 8,131 | **6,925** | (60) | **6,865** |
| **Transactions with shareholders of FGC UES recorded directly in equity** | | | | | | | | | |
| Issue of share capital | 16 | 2,219 | - | - | - | - | **2,219** | - | **2,219** |
| Share-based compensation | 16 | - | - | 605 | - | - | **605** | - | **605** |
| **Total transactions with shareholders of FGC UES** | | 2,219 | - | 605 | - | - | **2,824** | - | **2,824** |
| **As at 31 December 2012** | | **630,193** | **10,501** | **(4,917)** | **313,117** | **(41,831)** | **907,063** | **733** | **907,796** |

The accompanying notes on pages 9 to 43 are an integral part of these Consolidated Financial Statements

**Consolidated Statement of Changes in Equity**
(in millions of Russian Roubles unless otherwise stated)

| | Notes | Attributable to shareholders of FGC UES | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Treasury shares | Reserves | Accumulated deficit | Total | | |
| **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 | 16 | - | - | - | (1,227) | 1,227 | **-** | - | **-** |
| Change in fair value of available-for-sale investments | 9, 16 | - | - | - | (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, 24 | - | - | - | (10,749) | 10,749 | **-** | - | **-** |
| Accumulated gain on available-for-sale investments recycled to profit or loss | 16, 24 | - | - | - | (15,073) | - | **(15,073)** | - | **(15,073)** |
| Foreign currency translation difference | 8, 16 | - | - | - | 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 shareholders of FGC UES recorded directly in equity** | | | | | | | | | |
| Issue of share capital | 16 | 11,193 | - | - | - | - | **11,193** | - | **11,193** |
| Dividends declared | 16 | - | - | - | - | (2,552) | **(2,552)** | - | **(2,552)** |
| Share-based compensation | 16 | - | - | 1,342 | - | - | **1,342** | - | **1,342** |
| **Total transactions with shareholders of 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** |

## Note 1. JSC “FGC UES” and its operations

Joint-Stock Company “Federal Grid Company of Unified Energy System” (“FGC UES” or the “Company”) was established in June 2002 for the purpose of operating and managing the electricity transmission grid infrastructure of the Russian Unified National Electric Grid (the “UNEG”). As at 31 December 2012, FGC UES is 79.55% owned and controlled by the Government of the Russian Federation (the “RF”), the remaining shares are traded on MICEX-RTS and as Global depository receipts on the London Stock Exchange.

FGC UES and its subsidiaries (the “Group”) act as the natural monopoly operator for the UNEG. The Group’s principal operating activities consist of providing electricity transmission services, providing connection to the electricity grid, maintaining the electricity grid system, technical supervision of grid facilities and investment activities in the development of the UNEG. Majority of the Group’s revenues is generated via tariffs for electricity transmission, which are approved by the Russian Federal Tariff Service (the “FTS”) based on Regulatory Asset Base (“RAB”) regulation. FGC UES's main customers are distribution grid companies (“IDGCs”), certain large commercial end customers and retail electricity supply companies.

On 11 July 2012, an agreement was signed whereby the Executive functions of OJSC “IDGC Holding” (renamed to OJSC “Russian Grids” in April 2013) were transferred to FGC UES. Due to the regulated nature of business of OJSC “IDGC Holding” and since there is no transfer of risk and rewards from this assignment, OJSC “IDGC Holding” is not consolidated with the Group.

The registered office of the Company is located at 5A Akademika Chelomeya Street, Moscow 117630, Russian Federation.

***Relationships with the state.*** The Government of the RF is the majority owner of FGC UES and the ultimate controlling party. The Government directly affects the Group's operations via regulation over tariff by the FTS and its investment program is subject to approval by both the FTS and the Ministry of Energy. Ultimately the Government supports the Group due to its strategic position in the Russian Federation. The Government's economic, social and other policies could have a material impact on the Group’s operations.

***Business environment.*** The Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the RF, which display characteristics of an emerging market. The legal, tax and regulatory framework continue to develop, but are subject to varying interpretations and frequent changes which contribute to the challenges faces by entities operating in the RF (Note 28). These consolidated financial statements (“Consolidated Financial Statements”) reflect management's assessment of the impact of the Russian business environment on the operations and financial position of the Group. The future business environment may differ from management's assessment.

## Note 2. Basis of preparation

***Statement of compliance.*** These Consolidated Financial Statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”) and its interpretations as adopted by the European Union (the “EU”).

Until 31 December 2011 the Group prepared its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board (the “IASB”). For the reporting periods beginning on or after 1 January 2012, the Group will also prepare the consolidated financial statements in accordance with IFRS as adopted by the EU for filing with EU regulatory organisations. Any differences between IFRS as issued by the IASB and IFRS as adopted by the EU do not have material effect on the Group’s consolidated financial statements, therefore the consolidated financial statements prepared in accordance with IFRS as adopted by the EU is a continuation of the consolidated financial statements prepared in accordance with IFRS as issued by the IASB; IFRS 1 “First time adoption of IFRS” is not applicable.

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 RF (“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.

Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

***Functional and presentation currency.*** The Russian Rouble (“RR”) is functional currency for FGC UES and the currency in which these Consolidated Financial Statements are presented. All financial information presented in RR have been rounded to the nearest million, unless otherwise stated.

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

***New accounting developments.*** There are no new standards, interpretations or amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2012 and would be expected to have a material impact on the Group.

There are a number of new standards, interpretations and amendments that are effective for annual periods beginning on or after 1 January 2013 and have not been applied in preparing these Consolidated Financial Statements. None of these is expected to have a significant effect on these Consolidated Financial Statements, except the following:

- *Amendment to IAS 1 “Financial statement presentation”*, regarding other comprehensive income. The change requires the grouping of items presented in other comprehensive income on the basis of whether they are subsequently potentially reclassifiable to profit or loss.
- *IFRS 10 “Consolidated financial statements”*, builds on existing principles by identifying the concept of control as the determining factor whether an entity should be consolidated. The standard provides additional guidance to assist in the determination of control. The Group has yet to assess full impact of IFRS 10 and intends to adopt the standard no later than 1 January 2014.
- *IFRS 13 “Fair value measurement”*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of value measurement and disclosure requirements for use across IFRSs.

There are no other standards or interpretations that are not yet effective and would be expected to have a material impact on the Group.

***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 makes a number of estimates and assumptions that are continually evaluated and may differ from the related actual results. The estimates and assumptions 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:

*Carrying value of property, plant and equipment.* The Group uses the revaluation model for property, plant and equipment. The last external valuation was performed as at 31 December 2009 (Note 6). This valuation using the depreciated replacement cost methodology was capped by the income approach. Since there have been no significant changes in the income projections for the Group, no current valuation has been performed.

*Carrying value of investment in OJSC “INTER RAO UES”.* As at 31 December 2012 the Group owns 18.57% of the voting shares of OJSC “INTER RAO UES” (“INTER RAO”). Management has assessed the level of influence that the Group has on INTER RAO, 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 in the 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. The 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 2012, the decline in fair value of INTER RAO shares below cost is considered significant and prolonged and therefore the Group recorded an impairment of RR 18,941 million in the Consolidated Statement of the Comprehensive Income.

*Carrying value of LLC “ENERGO-finance” promissory notes (Note 10)****.*** As at 31 December 2012 management re-assessed the recoverable amount of long-term promissory notes issued by LLC “ENERGO-finance” and guaranteed by Rusenergo Fund Ltd, which invests in the Russian utilities stock market. The recoverability of these promissory notes depends on the performance of the underlying Russian utilities’ stocks. Actual 2012 stock market returns significantly underperformed resulting in reduction of net assets of Rusenergo Fund Ltd and worsening its future cash flow projections. Therefore, management concluded that these promissory notes were not recoverable as at 31 December 2012 and accordingly were fully impaired.

*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.

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

***Principles of consolidation***. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

***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.

***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.

(in millions of Russian Roubles unless otherwise stated)

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

***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. 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.

Any change in fair value of equity instruments is initially accumulated in other comprehensive income. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. If asset is considered to be impaired at the reporting date, 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.

***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 2012, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar was RR 30.37:US Dollar 1.00 (31 December 2011: RR 32.20:US Dollar 1.00); between the Russian Rouble and Euro: RR 40.23:Euro 1.00 (31 December 2011: RR 41.67: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 | 5-20 |

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

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.

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.

***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.

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

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.

***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 net basis and disclosed as an asset or 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.

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

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

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

***Advances received.*** Advances received are primarily a deferred income for the future connection services and are stated at nominal amount.

***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. 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.

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

***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.

***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 2012 and 31 December 2011 are presented below:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| **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 “Research and development centre of FGC UES” | 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 the UNEG” | 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 the UNEG 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 “Research and development centre of FGC UES”* 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 the UNEG”*. The main activities of this company are technical inspection, maintenance and regular and emergency repairs of power grids and other electric power facilities of the UNEG.

*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 “Russian Grids” (former OJSC “IDGC Holding”).

## 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 2012 and 31 December 2011 the Group had the following significant transactions with government-related entities:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| Transmission revenue | 119,024 | 120,247 |
| Electricity sales | 726 | 876 |
| Connection services | 212 | 373 |
| Purchased electricity for production needs | 6,615 | 6,910 |

(in millions of Russian Roubles unless otherwise stated)

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

Significant balances with government-related entities are presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash and cash equivalents | 9,637 | 20,464 |
| Bank deposits | 300 | 390 |
| Long-term promissory notes | 101 | 3,836 |
| Short-term promissory notes | 17,264 | 14,680 |
| Loans given | 9 | 430 |
| Trade receivables (net of allowance for doubtful debtors of RR 2,508 million as at 31 December 2012 and RR 3,931 million as at 31 December 2011) | 15,806 | 10,161 |
| Available-for-sale investments | 50,617 | 69,979 |
| Advances to construction companies and suppliers of property, plant and equipment (included in construction in progress) | 2,106 | 2,764 |
| Accounts payable to the shareholders of FGC UES | (3,257) | (2,275) |
| Non-current debt | (35,700) | (25,778) |
| Current debt | (183) | (227) |
| Accounts payable and accrued charges | (15,137) | (11,503) |

As at 31 December 2012 the Group had long-term undrawn committed financing facilities with government-related banks of RR 70,000 million (as at 31 December 2011: 60,000) (Note 18). There were no short-term undrawn committed financing facilities with government-related banks as at 31 December 2012 (as at 31 December 2011: RR 15,000 million) (Note 20).

Tax balances and charges are disclosed in Notes 17, 21 and 23. 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.

Total remuneration in the form of salary, bonuses and non-cash benefits (social security contributions are not included) provided to the members of the Management Board for the year ended 31 December 2012 and 31 December 2011 was as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Short-term compensation, including salary and bonuses | 341 | 416 |
| Post-employment benefits and other long-term benefits | 10 | 12 |
| Share-based compensation | 326 | 638 |
| **Total** | **677** | **1,066** |

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.

No remuneration was provided to the members of the Board of Directors for the year ended 31 December 2012 (for the year ended 31 December 2011: RR 7 million).

(in millions of Russian Roubles unless otherwise stated)

## Note 6. Property, plant and equipment

| | Buildings | Power trans-mission grids | Substations | Construction in progress | Other | Total |
|---|---|---|---|---|---|---|
| **Appraisal value or cost** | | | | | | |
| Balance as at 1 January 2012 | 16,173 | 481,535 | 200,419 | 325,009 | 23,460 | 1,046,596 |
| Additions | 1,360 | 180 | 1,341 | 155,300 | 4,051 | 162,232 |
| Transfers | 1,603 | 73,267 | 85,700 | (164,649) | 4,079 | - |
| Disposals | (5) | (114) | (1,917) | (883) | (240) | (3,159) |
| Reversal of impairment provision | - | - | - | 384 | - | 384 |
| Balance as at 31 December 2012 | 19,131 | 554,868 | 285,543 | 315,161 | 31,350 | 1,206,053 |
| Including PPE under finance lease | - | - | 2,273 | - | 914 | 3,187 |
| **Accumulated depreciation and impairment** | | | | | | |
| Balance as at 1 January 2012 | (487) | (33,387) | (26,552) | (1,310) | (4,183) | (65,919) |
| Depreciation charge | (502) | (21,721) | (17,633) | - | (4,052) | (43,908) |
| Impairment loss | - | (116) | - | (155) | (60) | (331) |
| Disposals | - | 18 | 529 | - | 93 | 640 |
| Balance as at 31 December 2012 | (989) | (55,206) | (43,656) | (1,465) | (8,202) | (109,518) |
| Including PPE under finance lease | - | - | (1,110) | - | (125) | (1,235) |
| Net book value as at 1 January 2012 | 15,686 | 448,148 | 173,867 | 323,699 | 19,277 | 980,677 |
| Net book value as at 31 December 2012 | 18,142 | 499,662 | 241,887 | 313,696 | 23,148 | 1,096,535 |

| | Buildings | Power trans-mission grids | Substations | Construction in progress | Other | Total |
|---|---|---|---|---|---|---|
| **Appraisal value or cost** | | | | | | |
| 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) |
| 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** | | | | | | |
| Balance as at 1 January 2011 | (213) | (16,151) | (13,256) | (332) | (2,118) | (32,070) |
| Depreciation charge | (276) | (17,249) | (13,577) | - | (2,085) | (33,187) |
| Impairment loss | - | - | - | (1,127) | (47) | (1,174) |
| Disposals | 2 | 13 | 281 | 149 | 67 | 512 |
| 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 |

Borrowing costs of RR 12,969 million for the year ended 31 December 2012 were capitalised within additions (for the year ended 31 December 2011: RR 5,833 million). A capitalisation rate of 8.4% was used for the year ended 31 December 2012 (for the year ended 31 December 2011: 7.7%) 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 2012 such advances amounted to RR 53,757 million net of specific impairment of RR 103 million (as at 31 December 2011: RR 69,504 million net of specific impairment RR 525 million).

(in millions of Russian Roubles unless otherwise stated)

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

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment. Land plots are classified together with items of property, plant and equipment located on them.

***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 2012. 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 in view of the transfer to Regulatory Asset Base tariff regulation – up to 10% in 2014;
- The amount of expenditure for the period from 2013 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 10.24% 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 2012. If the discount rate would be 0.5% higher the carrying amounts of property, plant and equipment would exceed the recoverable amount by approximately 1.4%.

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 2012 | 15,278 | 235,457 | 257,819 | 341,017 | 24,711 | 874,282 |
| 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 |

***Impairment.*** For the year ended 31 December 2012 the Group recognised a net reversal of an impairment of property, plant and equipment in the amount of RR 53 million, which consisted of a net reversal of an impairment of RR 368 million related to advances to construction companies and suppliers of property, plant and equipment, an impairment of RR 188 million related to property, plant and equipment of OJSC "Nurenergo" and a specific impairment of RR 127 million related to construction in progress which cost is not expected to be recovered.

For the year ended 31 December 2011 the Group recognised a net 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" and a specific impairment of RR 430 million related to construction in progress which cost is not expected to be recovered.

***Leased property, plant and equipment.*** Included in property, plant and equipment are certain items under finance leases. As at 31 December 2012 the net book value of leased property, plant and equipment was RR 1,952 million (as at 31 December 2011: RR 2,083 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 2012 | 31 December 2011 |
|---|---|---|
| Under one year | 717 | 413 |
| Between one and five years | 1,503 | 1,146 |
| Over five years | 8,588 | 7,627 |
| **Total** | **10,808** | **9,186** |

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 2012 the carrying value of property, plant and equipment leased out under operating lease was RR 4,142 million (as at 31 December 2011: RR 2,988 million).

## Note 7. Intangible assets

| | Corporate information management system (SAP R/3) | Other intangible assets | Total |
|---|---|---|---|
| Cost as at 1 January 2011 | 4,722 | 4,870 | 9,592 |
| Accumulated amortisation | (1,021) | (1,721) | (2,742) |
| Accumulated impairment | (661) | - | (661) |
| **Carrying value as at 1 January 2011** | 3,040 | 3,149 | 6,189 |
| Additions | 309 | 1,401 | 1,710 |
| Disposals - cost | (661) | (157) | (818) |
| Disposals - accumulated amortisation | - | 96 | 96 |
| Amortisation charge | (320) | (545) | (865) |
| Write-off of previously impaired assets | 661 | - | 661 |
| **Carrying value as at 31 December 2011** | 3,029 | 3,944 | 6,973 |
| Cost as at 31 December 2011 | 4,370 | 6,114 | 10,484 |
| Accumulated amortisation | (1,341) | (2,170) | (3,511) |
| Accumulated impairment | - | - | - |
| **Carrying value as at 31 December 2011** | 3,029 | 3,944 | 6,973 |
| Cost as at 1 January 2012 | 4,370 | 6,114 | 10,484 |
| Accumulated amortisation | (1,341) | (2,170) | (3,511) |
| **Carrying value as at 1 January 2012** | 3,029 | 3,944 | 6,973 |
| Additions | 547 | 2,389 | 2,936 |
| Disposals - cost | (66) | (291) | (357) |
| Disposals - accumulated amortisation | 66 | 272 | 338 |
| Amortisation charge | (84) | (487) | (571) |
| **Carrying value as at 31 December 2012** | 3,492 | 5,827 | 9,319 |
| Cost as at 31 December 2012 | 4,851 | 8,212 | 13,063 |
| Accumulated amortisation | (1,359) | (2,385) | (3,744) |
| **Carrying value as at 31 December 2012** | 3,492 | 5,827 | 9,319 |

The Corporate information management system (SAP R/3) consists of several modules (parts) and related licences. As at 31 December 2012 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. SAP R/3 includes development costs of RR 2,631 million as at 31 December 2012 (as at 31 December 2011: RR 2,496 million).

(in millions of Russian Roubles unless otherwise stated)

## Note 7. Intangible assets (continued)

Other intangible assets include capitalised software development costs that meet the definition of an intangible asset of RR 1,515 million as at 31 December 2012 (as at 31 December 2011: RR 2,483 million).

As at 31 December 2012 and 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 those dates.

## Note 8. Investments in associates

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Carrying value as at 1 January | 910 | 348 |
| Share of result of associates | 21 | 8 |
| Reversal of impairment of investments in associates | 313 | - |
| Property, plant and equipment revaluation reserve | 209 | - |
| Translation difference | (50) | 66 |
| Transfer from non-current assets held for sale | - | 488 |
| **Carrying value as at 31 December** | **1,403** | **910** |

The carrying value of investments in associates is as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| JSC UES “GruzRosEnergo” | 1,036 | 557 |
| Other associates | 367 | 353 |
| **Total investments in associates** | **1,403** | **910** |

***Remeasurement of the investment in JSC UES “GruzRosEnergo”.*** In 2007, the Group recognised an impairment of the investment in JSC UES “GruzRosEnergo” in the amount of RR 241 million. In 2010, this investment was reclassified as held for sale under IFRS 5 “Non-current assets held for sale and discontinued operations” (Note 24) and re-measured downwards by RR 72 million. In 2011, following its exclusion from the transaction with INTER RAO, the investment was reclassified back from assets held for sale to investments in associates.

In 2012, the Group received the results of an independent appraisal of property, plant and equipment of JSC UES “GruzRosEnergo”. According to it, the fair value of the Group’s interest in net assets of the entity increased, therefore the impairment provision in the total amount of RR 313 million was reversed. The remaining part of the increase (less share of result for the period and translation difference) was recognised as revaluation reserve for property, plant and equipment of the associate.

## Note 9. Available-for-sale investments

| | 1 January 2012 | Additions | Change in fair value** | Impairment charge | 31 December 2012 |
|---|---|---|---|---|---|
| OJSC “INTER RAO UES” | 67,077 | - | - | (18,941) | 48,136 |
| OJSC “Russian Grids”* | 2,902 | - | (421) | - | 2,481 |
| **Total** | **69,979** | **-** | **(421)** | **(18,941)** | **50,617** |

| | 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 “Russian Grids”* | 6,857 | - | (3,955) | - | 2,902 |
| **Total** | **9,531** | **79,387** | **(6,278)** | **(12,661)** | **69,979** |

* Former OJSC “IDGC Holding”.

** For the year ended 31 December 2012 change in fair value of these available-for-sale investments in the total amount of RR 19,362 million was recognised in other comprehensive income (for the year ended 31 December 2011: RR 18,939 million). The amount of RR 18,941 million was reclassified from other comprehensive income to profit or loss for the year ended 31 December 2012 (for the year ended 31 December 2011: RR 12,661 million).

(in millions of Russian Roubles unless otherwise stated)

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

***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 OJSC "INTER RAO UES".*** During the year ended 31 December 2012 the fair value of shares in INTER RAO continued to decline below cost. Management assessed these investments for impairment as at 31 December 2012 and concluded that there was evidence of a significant and prolonged decline in the fair value of equity investments below their cost. The fall in fair value of these investments during the reporting period amounted to RR 18,941 million, and the impairment recognised in other comprehensive income was recycled from equity to profit or loss.

### Note 10. Promissory notes

| | Effective interest rate | Due | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|
| **Long-term promissory notes** | | | | |
| Bank promissory notes | 7.3%-12.6% | 2014-2015 | 928 | 1,794 |
| Non-bank promissory notes | 8.9%-12.6% | 2014-2038 | 529 | 13,134 |
| **Total long-term promissory notes** | | | **1,457** | **14,928** |
| **Short-term promissory notes** | | | | |
| Bank promissory notes | 6.1%-9.01% | 2013 | 18,768 | 20,071 |
| Non-bank promissory notes | 8.9%-12.6% | 2012-2013 | 4,612 | 666 |
| **Total short-term promissory notes** | | | **23,380** | **20,737** |

All promissory notes are denominated in Russian Roubles. As at 31 December 2012 and 31 December 2011 the fair value of promissory notes, determined using valuation technique, was RR 24,869 million and RR 35,731 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.

Included in long-term non-bank promissory notes are promissory notes of LLC "ENERGO-finance" which are fully impaired (carrying value as at 31 December 2011: RR 9,197 million) (Note 29). The amount of impairment provision was RR 12,022 million as at 31 December 2012 (as at 31 December 2011: RR 2,825 million).

### Note 11. Other non-current assets

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Long-term trade receivables (net of allowance for doubtful debtors of RR 580 million as at 31 December 2012 and RR 108 million as at 31 December 2011) | 3,382 | 116 |
| **Total financial assets** | **3,382** | **116** |
| VAT recoverable | 121 | 216 |
| Other non-current assets | 995 | 707 |
| **Total other non-current assets** | **4,498** | **1,039** |

### Note 12. Cash and cash equivalents

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Cash at bank and in hand | 20,022 | 18,925 |
| Cash equivalents | 4,034 | 6,702 |
| **Total cash and cash equivalents** | **24,056** | **25,627** |

| Cash at bank and in hand | Rating | Rating agency | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|
| OJSC "Gazprombank" | BBB- | Standard & Poor's | 7,857 | 150 |
| OJSC "Alfa-Bank" | BB+ | Standard & Poor's | 6,297 | 1,065 |
| OJSC "Bank "ROSSIYA" | BB- | Standard & Poor's | 4,000 | 4,000 |
| OJSC "Sberbank" | Baa1 | Moody's | 1,745 | 13,654 |
| Other banks | | | 118 | 51 |
| Cash in hand | | | 5 | 5 |
| **Total cash at bank and in hand** | | | **20,022** | **18,925** |

(in millions of Russian Roubles unless otherwise stated)

## Note 12. Cash and cash equivalents (continued)

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

| Bank deposits | Interest rate | Rating | Rating agency | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|---|
| OJSC “Sberbank” | 5.3%-6.9% | Baa1 | Moody’s | 3,539 | 5,420 |
| OJSC “VTB bank” | 7.8%-8.3% | BBB | Standard & Poor's | 379 | 690 |
| OJSC “Gazprombank” | 7.6%-8.0% | BBB- | Standard & Poor's | 35 | 550 |
| **Total certificates of deposit** | | | | **3,953** | **6,660** |

There were no certificates of deposit denominated in foreign currency included in cash equivalents as at 31 December 2012 and 31 December 2011.

## Note 13. Bank deposits

| | Interest rate | Rating | Rating agency | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|---|
| OJSC “Alfa-Bank” | 6.0%-9.3% | BB+ | Standard&Poor's | 680 | 794 |
| OJSC “Sberbank” | 8.3% | Baa1 | Moody’s | 210 | 190 |
| OJSC “Gazprombank” | 8.6%-8.7% | BBB- | Standard&Poor's | 90 | - |
| OJSC “VTB bank” | 5.6% | BBB | Standard&Poor's | - | 200 |
| **Total bank deposits** | | | | **980** | **1,184** |

The carrying amount of bank deposits approximates their fair value.

There were no bank deposits denominated in foreign currency as at 31 December 2012 and 31 December 2011.

## Note 14. Accounts receivable and prepayments

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade receivables | | |
| (net of allowance for doubtful debtors of RR 4,839 million as at 31 December 2012 and RR 6,570 million as at 31 December 2011) | 20,512 | 12,036 |
| Other receivables | | |
| (net of allowance for doubtful debtors of RR 689 million as at 31 December 2012 and RR 908 million as at 31 December 2011) | 1,504 | 932 |
| **Total financial assets** | **22,016** | **12,968** |
| VAT recoverable | 14,034 | 16,597 |
| Advances to suppliers | | |
| (net of allowance for doubtful debtors of RR 2,020 million as at 31 December 2012 and RR 2,033 million as at 31 December 2011) | 2,685 | 2,764 |
| Tax prepayments | 73 | 615 |
| **Total accounts receivable and prepayments** | **38,808** | **32,944** |

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

Tax prepayments will be settled against future tax liabilities.

Management has determined the provision for doubtful debtors based on specific customer identification, customer payment trends, subsequent receipts and settlements and analyses of expected future cash flows. The effects of discounting are reflected in the doubtful debtor allowance and expense. Management 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 2012 | Long-term trade receivables | Short-term trade receivables | Other short-term receivables | Advances to suppliers | Total |
|---|---|---|---|---|---|
| **As at 1 January** | **108** | **6,570** | **908** | **2,033** | **9,619** |
| Provision accrual | 488 | 1,963 | 71 | 3 | 2,525 |
| Provision reversal | - | (3,643) | (262) | (25) | (3,930) |
| Debt written-off | - | (32) | (25) | - | (57) |
| Amortisation of discount | (16) | (9) | (4) | - | (29) |
| Reclassifications | - | (10) | 1 | 9 | - |
| **As at 31 December** | **580** | **4,839** | **689** | **2,020** | **8,128** |

(in millions of Russian Roubles unless otherwise stated)

### Note 14. Accounts receivable and prepayments (continued)

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

As at 31 December 2012 the overdue accounts receivable for which the provision had not been recorded amounted to RR 4,772 million (as at 31 December 2011: RR 3,210 million). The ageing analysis is shown below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Less than 3 months | 3,626 | 2,576 |
| 3 to 6 months | 192 | 378 |
| 6 to 12 months | 451 | 64 |
| 1 year to 3 years | 503 | 192 |
| **Total** | **4,772** | **3,210** |

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Less than 3 months | 268 | 317 |
| 3 to 6 months | 786 | 843 |
| 6 to 12 months | 875 | 1,624 |
| 1 year to 3 years | 2,630 | 3,216 |
| 3 to 5 years | 840 | 873 |
| More than 5 years | 30 | 5 |
| **Total** | **5,429** | **6,878** |

### Note 15. Inventories

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Spare parts | 2,326 | 2,232 |
| Repair materials | 1,651 | 1,462 |
| Other inventories | 3,030 | 2,626 |
| **Total inventories** | **7,007** | **6,320** |

The cost of inventories is shown net of an obsolescence provision for RR 71 million as at 31 December 2012 (as at 31 December 2011: RR 73 million). As at 31 December 2012 and 31 December 2011 the Group had no inventories pledged as security under loan and other agreements.

### Note 16. Equity

***Share capital***

| | Number of shares issued and fully paid | | | |
|---|---|---|---|---|
| | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| Ordinary shares | 1,260,386,658,740 | 1,255,948,128,393 | 630,193 | 627,974 |

As at 31 December 2012 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 March 2012, FGC UES completed and registered the additional share issue. The amount of RR 2,219 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. As a result of this issue, the share capital was increased to RR 630,193 million.

(in millions of Russian Roubles unless otherwise stated)

## Note 16. Equity (continued)

In November 2012, FGC UES started an additional share issue. The placement process started in December, but was only completed after the year end (Note 32). The amount of RR 3,247 million received for shares issued was included as at 31 December 2012 in the Consolidated Statement of Financial Position as accounts payable to the shareholders of FGC UES.

***Treasury shares.*** The Group through a subsidiary holds 13,727,165 thousand ordinary shares in treasury at a total cost of RR 4,917 million (as at 31 December 2011: 5,522 million).

In 2012, treasury shares decreased by RR 605 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.

Reserves comprise the following:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Revaluation reserve (net of tax) for: | | |
| - property, plant and equipment (Note 6) | 311,479 | 312,298 |
| - available-for-sale investments (Note 9) | 1,588 | 1,925 |
| Foreign currency translation reserve | 50 | 100 |
| **Total reserves** | **313,117** | **314,323** |

Reserves for the year ended 31 December 2012 (net of tax):

| | Revaluation reserve for: | | | |
|---|---|---|---|---|
| | property, plant and equipment (Notes 6, 8) | available-for-sale investments (Note 9) | Foreign currency translation reserve (Note 8) | Total reserves |
| **As at 1 January 2012** | **312,298** | **1,925** | **100** | **314,323** |
| Change in revaluation reserve for property, plant and equipment | (1,028) | - | - | **(1,028)** |
| Change in revaluation reserve for property, plant and equipment of associates | 209 | - | - | **209** |
| Change in fair value of available-for-sale investments | - | (15,489) | - | **(15,489)** |
| Accumulated loss on available-for-sale investments recycled to profit or loss | - | 15,152 | - | **15,152** |
| Foreign currency translation difference | - | - | (50) | **(50)** |
| **As at 31 December 2012** | **311,479** | **1,588** | **50** | **313,117** |

The total reduction in fair value of available-for-sale investments recognised in other comprechensive income in 2012 was RR 19,362 million including related deferred tax of RR 3,873 million.

(in millions of Russian Roubles unless otherwise stated)

**Note 16. Equity (continued)**

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

| | Revaluation reserve for: property, plant and equipment (Note 6) | Revaluation reserve for: available-for-sale investments (Note 9) | Amounts recognised in other comprehensive income and accumulated in equity relating to non-current assets held for sale | Foreign currency translation reserve (Note 8) | 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 | - | - | - | 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** |

***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 2012, the net loss of FGC UES, as reported in the published statutory financial statements, was RR 24,502 million (for the year ended 31 December 2011: RR 2,468 million). At the Annual General Meeting in June 2012 the decision was approved not to declare dividends for the year ended 31 December 2011.

***Share-based compensation***. In February 2011, the Board of Directors approved an Option program ("the Program") in which the members of the Management Board and other employees of the Company can participate. In March 2011, 13,569,041,046 options to purchase the Company's ordinary shares were allocated under the Program. In July 2012, additional 549,086,611 options were allocated.

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 Program 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 2,859 million, including RR 38 million related to options granted in July 2012.

(in millions of Russian Roubles unless otherwise stated)

## Note 16. 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 2012** | **31 December 2011** |
| Share price | RR 0.237 | RR 0.412 |
| Expected volatility | 45% | 45% |
| Risk-free interest rate | 7.59% | 7.58% |
| Expected options life | 5 years | 5 years |

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Dividends payable | 9 | 55 |
| Accounts payable for shares issued | 3,248 | 2,220 |
| **Total accounts payable to shareholders of FGC UES** | **3,257** | **2,275** |

## Note 17. Income tax

Income tax expense comprises the following:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Current income tax charge | (1,629) | (8,588) |
| Deferred income tax charge | (127) | (5,287) |
| **Total income tax expense** | **(1,756)** | **(13,875)** |

During the years ended 31 December 2012 and 31 December 2011 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 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Profit before income tax** | **8,799** | **62,863** |
| Theoretical income tax charge at the statutory tax rate of 20 percent | (1,760) | (12,573) |
| Tax effect of items which are not assessable / (deductible) for taxation purposes | 25 | (1,245) |
| Movement in unrecognised deferred tax assets | (21) | (57) |
| **Total income tax** | **(1,756)** | **(13,875)** |

***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 2012 and 31 December 2011, the rates expected to be applicable when the asset or liability will reverse.

(in millions of Russian Roubles unless otherwise stated)

## Note 17. Income tax (continued)

***Deferred income tax assets and liabilities for the year ended 31 December 2012:***

| | | Movements for the year | | |
|---|---|---|---|---|
| | 31 December 2012 | Recognised in profit or loss | Recognised in other compre-hensive income | 1 January 2012 |
| **Deferred income tax liabilities** | | | | |
| Property, plant and equipment | 79,676 | 6,570 | - | 73,106 |
| Investments in associates | 74 | 3 | - | 71 |
| Available-for-sale investments | 6,186 | (3,789) | (84) | 10,059 |
| Other deferred tax liabilities | 60 | (3) | - | 63 |
| **Total deferred income tax liabilities** | **85,996** | **2,781** | **(84)** | **83,299** |
| **Deferred income tax assets** | | | | |
| Property, plant and equipment | (1,462) | 59 | - | (1,521) |
| Intangible assets | (593) | (74) | - | (519) |
| Long-term promissory notes | (3,529) | (2,033) | - | (1,496) |
| Accounts receivable and prepayments | (1,438) | (1,171) | - | (267) |
| Retirement benefit obligation | (428) | (37) | - | (391) |
| Current and non-current debt | (156) | 14 | - | (170) |
| Accounts payable and accruals | (231) | (52) | - | (179) |
| Other deferred tax assets | (520) | (356) | - | (164) |
| Tax losses | (1,439) | 975 | - | (2,414) |
| Unrecognised deferred tax assets | 4,415 | 21 | - | 4,394 |
| **Total deferred income tax assets** | **(5,381)** | **(2,654)** | **-** | **(2,727)** |
| **Deferred income tax liabilities, net** | **80,615** | **127** | **(84)** | **80,572** |

The current portion of net deferred tax liabilities as at 31 December 2012 equaled RR 3,321 million and represented the amount of deferred tax liabilities to be settled during the year ended 31 December 2013 (as at 31 December 2011: RR 1,315 million).

Unrecognised deferred tax assets include deferred income tax assets on tax losses carried forward in the amount of RR 4,415 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 2012 | 31 December 2011 |
|---|---|---|
| OJSC "Mobile gas-turbine electricity plants" | 3,620 | 2,670 |
| OJSC "Nurenergo" | 3,226 | 8,876 |
| Others | 348 | 524 |
| **Total tax losses carried forward** | **7,194** | **12,070** |

The tax losses expire 10 years after their origination. The Group's tax losses expire mostly with term over 5 years (in 2018-2022) – RR 5,868 million, RR 1,326 million expire with terms from 2 to 5 years (during 2014-2017) and nil expire during the year 2013.

During the year ended 31 December 2012 OJSC "Nurenergo" reassessed the amount of the taxable profit recorded in 2011 and the amount of the tax losses recorded in 2004-2010. As a result of this reassessment, the tax loss of RR 2,462 million recorded in 2011 was reversed and the taxable profit of RR 1,881 million was recognised. Tax losses carried forward in the amount of RR 1,881 million unrecognised in the previous years were utilised against this taxable profit. Tax losses carried forward relating to 2004-2010 were also reassessed and decreased by RR 1,439 mln. As a result of this reassessment, the total amount of unrecognised tax losses carried forward was decreased by RR 5,781 million.

(in millions of Russian Roubles unless otherwise stated)

## Note 17. 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 compre-hensive 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** |

(in millions of Russian Roubles unless otherwise stated)

## Note 18. Non-current debt

| | Currency | Effective interest rate | Due date | Option date | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|---|---|
| ***Certified interest-bearing non-convertible bearer bonds:*** | | | | | | |
| Series 19 | RR | 7.95% | 06.07.2023 | 18.07.2018 | 20,719 | 20,710 |
| Series 25 | RR | 8.60% | 14.09.2027 | 04.10.2016 | 15,318 | - |
| Series 18 | RR | 8.50% | 27.11.2023 | 17.06.2014 | 15,073 | 15,066 |
| Series 22 | RR | 9.00% | 21.07.2027 | 03.08.2022 | 10,358 | - |
| Series 10 | RR | 7.75% | 15.09.2020 | 24.09.2015 | 10,206 | 10,202 |
| Series 06 | RR | 7.15% | 15.09.2020 | 26.09.2013 | 10,190 | 10,186 |
| Series 08 | RR | 7.15% | 15.09.2020 | 26.09.2013 | 10,190 | 10,186 |
| Series 21 | RR | 8.75% | 06.10.2027 | 26.04.2017 | 10,163 | - |
| Series 15 | RR | 8.75% | 12.10.2023 | 28.10.2014 | 10,161 | 10,156 |
| Series 12 | RR | 8.10% | 19.04.2019 | 28.04.2016 | 10,146 | - |
| Series 11 | RR | 7.99% | 16.10.2020 | 24.10.2017 | 10,144 | 10,140 |
| Series 13 | RR | 8.50% | 22.06.2021 | - | 9,998 | 9,993 |
| Series 09 | RR | 7.99% | 16.10.2020 | 24.10.2017 | 5,072 | 5,070 |
| Series 07 | RR | 7.50% | 16.10.2020 | 27.10.2015 | 5,068 | 5,066 |
| ***Stock Exchange authorised certified interest-bearing non-convertible bearer bonds:*** | | | | | | |
| Series BO-01 | RR | 8.10% | 21.10.2015 | 29.04.2015 | 10,151 | - |
| ***Loan participation notes (LPNs):*** | | | | | | |
| Series 01 | RR | 8.45% | 13.03.2019 | - | 17,578 | - |
| ***Bank loans:*** | | | | | | |
| OJSC “Gazprombank” | RR | 9.50% | 13.10.2014 | - | 15,023 | 15,000 |
| OJSC “Gazprombank” | RR | 9.50% | 21.11.2014 | - | 10,016 | 10,000 |
| OJSC “Gazprombank” | RR | 9.75% | 13.06.2017 | - | 10,016 | - |
| ***Finance lease:*** | | | | | | |
| Finance lease liabilities | RR | 9.50% | 23.03.2018 | - | 778 | 849 |
| **Total non-current debt** | | | | | **216,368** | **132,624** |
| Less: current portion of non-current bonds and LPNs | | | | | (23,035) | (1,775) |
| Less: current portion of non-current bank loans | | | | | (55) | - |
| Less: current portion of finance lease liabilities | | | | | (78) | (71) |
| **Non-current debt** | | | | | **193,200** | **130,778** |

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

As at 31 December 2012 the estimated fair value of the non-current debt (including the current portion) was RR 213,721 million (as at 31 December 2011: RR 129,200 million), which was estimated using the market prices for quoted FGC UES bonds.

As at 31 December 2012 the Group had long-term undrawn committed financing facilities of RR 122,500 million (as at 31 December 2011: RR 102,500 million) which could be used for the general purposes of the Group.

(in millions of Russian Roubles unless otherwise stated)

## Note 18. 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 2012** | **150** | **906** | **-** | **1,056** |
| Less future finance charges | **(72)** | **(206)** | **-** | (278) |
| **Present value of minimum lease payments as at 31 December 2012** | **78** | **700** | **-** | **778** |
| **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** |

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 19. Retirement benefit obligations

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Net liability as at 1 January** | **4,686** | **4,318** |
| Net periodical cost | 944 | 879 |
| Benefits paid by the plan | (466) | (511) |
| **Net liability as at 31 December** | **5,164** | **4,686** |

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.

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 2012.

The tables below provide information about benefit obligations and actuarial assumptions as at 31 December 2012 and 31 December 2011.

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Total present value of defined benefit obligations | 6,849 | 4,735 |
| Net actuarial (losses) / gains not recognised in the Consolidated Statement of Financial Position | (1,511) | 445 |
| Unrecognised past service cost | (174) | (494) |
| **Liability recognised in the Consolidated Statement of Financial Position** | **5,164** | **4,686** |

(in millions of Russian Roubles unless otherwise stated)

## Note 19. Retirement benefit obligations (continued)

The amounts recognised in profit or loss are as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Interest cost | 380 | 401 |
| Current service cost | 340 | 308 |
| Net actuarial losses / (gains) recognised in the period | 2 | (24) |
| Recognised past service cost | 222 | 194 |
| **Net cost recognised in the Consolidated Statement of Comprehensive Income** | **944** | **879** |

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Defined benefit obligations as at 1 January** | **4,735** | **5,148** |
| Benefits paid by the plan | (466) | (511) |
| Current service costs | 340 | 308 |
| Interest cost | 380 | 401 |
| Net actuarial losses / (gains) | 1,959 | (611) |
| Past service cost | (99) | - |
| **Present value of defined benefit obligations as at 31 December** | **6,849** | **4,735** |

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

*(i) Financial assumptions*

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Discount rate | 7.1% | 8.1% |
| Inflation rate | 5.1% | 5.1% |
| Future salary increases | 5.1% | 5.1% |

*(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 4% 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.

*Mortality table*: Russian population mortality table 1998.

The contributions under voluntary pension programs in 2013 are expected in the amount of RR 249 million.

Experience adjustments on benefit obligation are as follows:

| | 31 December 2012 | 31 December 2011 | 31 December 2010 | 31 December 2009 | 31 December 2008 | 31 December 2007 |
|---|---|---|---|---|---|---|
| Total present value of defined benefit obligations | 6,849 | 4,735 | 5,148 | 4,544 | 4,262 | 3,841 |
| Deficit in plan | (6,849) | (4,735) | (5,148) | (4,544) | (4,262) | (3,841) |
| Experience adjustment on defined benefit obligations | 890 | 123 | (197) | 323 | 808 | 376 |

(in millions of Russian Roubles unless otherwise stated)

## Note 20. Current debt and current portion of non-current debt

| | Effective interest rate | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| Third party non-bank loans | 7.0-17.0% | 50 | 156 |
| Current portion of non-current borrowings (Note 18) | | 23,168 | 1,846 |
| **Total current debt and current portion of non-current debt** | | **23,218** | **2,002** |

As at 31 December 2012 the Group had no short-term undrawn committed financing facilities (as at 31 December 2011: RR 15,000 million which could be used for the general purposes of the Group).

## Note 21. Accounts payable and accrued charges

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Accounts payable to construction companies and suppliers of property, plant and equipment | 15,533 | 16,699 |
| Trade payables | 14,653 | 12,374 |
| Accrued liabilities | 115 | 12 |
| Other creditors | 1,141 | 1,556 |
| **Total financial liabilities** | **31,442** | **30,641** |
| Advances received | 12,842 | 11,013 |
| Accounts payable to employees | 1,162 | 1,172 |
| Taxes other than on income payable | 910 | 1,707 |
| Other provisions for liabilities and charges | 460 | 441 |
| **Total accounts payable and accrued charges** | **46,816** | **44,974** |

## Note 22. Revenue

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Transmission fee | 136,559 | 134,754 |
| Electricity sales | 2,251 | 2,246 |
| Connection services | 1,079 | 2,178 |
| Grids repair and maintenance services | 424 | 393 |
| **Total revenue** | **140,313** | **139,571** |

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Communication services | 863 | 1,088 |
| Penalties and fines | 780 | 772 |
| Rental income | 578 | 450 |
| Research and development services | 392 | 434 |
| Design works | 317 | 553 |
| Insurance compensation | 131 | 986 |
| Write-off of accounts payable * | 51 | 2,753 |
| Other income | 431 | 757 |
| **Total other operating income** | **3,543** | **7,793** |

* Accounts payable in the amount of RR 2,747 million relating to OJSC “Nurenergo” were written off during the year ended 31 December 2011 as these amounts had been recognised in 2003-2006 years and the relevant limitation period had expired in 2011, according to Russian legislation. There were no claims to OJSC “Nurenergo” concerned with these payables.

(in millions of Russian Roubles unless otherwise stated)

## Note 23. Operating expenses

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Depreciation of property, plant and equipment | 43,908 | 33,187 |
| Employee benefit expenses and payroll taxes | 26,311 | 24,046 |
| Purchased electricity | 13,320 | 13,781 |
| Repairs and maintenance of equipment (by contractors) | 3,732 | 3,666 |
| Materials for repair | 2,429 | 2,326 |
| Business trips and transportation expenses | 2,166 | 2,143 |
| Electricity transit via foreign countries | 1,903 | 1,350 |
| Taxes, other than on income | 1,880 | 1,141 |
| Security services | 1,870 | 1,680 |
| Rent | 1,815 | 1,678 |
| Other materials | 1,565 | 1,843 |
| Subcontract works | 1,418 | 1,267 |
| Consulting, legal and auditing services | 1,302 | 1,223 |
| Loss / (gain) on disposal of property, plant and equipment | 1,210 | (617) |
| Information system maintenance | 1,066 | 1,046 |
| Insurance | 964 | 972 |
| Communication service | 735 | 674 |
| Utilities and maintenance of buildings | 573 | 487 |
| Amortisation of intangible assets | 571 | 865 |
| Research and development | 544 | 799 |
| (Reversal) / accrual of allowance for doubtful debtors | (1,405) | 4,305 |
| Other expenses | 2,753 | 2,888 |
| **Total operating expenses** | **110,630** | **100,750** |

Employee benefit expenses and payroll taxes include the following:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Wages and salaries | 20,083 | 17,926 |
| Social security contributions to the Pension Fund | 3,604 | 2,995 |
| Social security contributions to other state non-budgetary funds | 1,075 | 904 |
| Pension costs – defined benefit plans (Note 19) | 944 | 879 |
| Share-based compensation (Note 16) | 605 | 1,342 |
| **Total employee benefit expenses and payroll taxes** | **26,311** | **24,046** |

## Note 24. Disposal of available-for-sale investments and investments in associates

As at 31 December 2010 all available-for-sale investments, except for shares of OJSC "Russian Grids" (former 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 in exchange for ordinary shares of INTER RAO. In March and May 2011 all the above-mentioned investments, except for JSC UES "GruzRosEnergo", were transferred to INTER RAO 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 associates 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 24. Disposal of available-for-sale investments and investments in associates (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.

### Note 25. Finance income

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Interest income | 3,987 | 3,834 |
| Foreign currency exchange differences | 90 | 61 |
| Dividends | 20 | 45 |
| Other finance income | 16 | 17 |
| **Total finance income** | **4,113** | **3,957** |

### Note 26. Finance costs

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Interest expense | 13,051 | 5,895 |
| Foreign currency exchange differences | 55 | 72 |
| Other finance costs | 77 | 144 |
| **Total finance cost** | **13,183** | **6,111** |
| Less capitalised interest expenses on borrowings related to qualifying assets (Note 6) | (12,969) | (5,833) |
| **Total finance cost recognised in profit or loss** | **214** | **278** |

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Weighted average number of ordinary shares (millions of shares) | 1,246,807 | 1,242,513 |
| Profit attributable to shareholders of FGC UES (millions of RR) | 7,103 | 49,139 |
| **Weighted average earning per share – basic and diluted (in RR)** | **0.006** | **0.040** |

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 2012 the Group's subsidiary, OJSC ”Nurenergo” was engaged in a number of litigations involving claims amounting in total to RR 7,433 million (as at 31 December 2011: RR 4,947 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.

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

In September 2012, the Commercial Court of the Republic of Chechnya commenced the observation procedure in respect of OJSC "Nurenergo". In accordance with Russian legislation on bankruptcy, all the above-mentioned litigations were suspended. In March 2013, the Federal Commercial Court of the North Caucasus District granted a cassational appeal filed by OJSC "Nurenergo", annuled the original court decision, and remitted the case for a new trial.

***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 decision to perform tax review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

***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 222,912 million as at 31 December 2012 (as at 31 December 2011: RR 351,189 million) including VAT. These amounts include accounts payable to construction companies and suppliers of property, plant and equipment in the amount of RR 15,533 million as at 31 December 2012 (as at 31 December 2011: RR 16,699 million) (Note 21).

**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.

(in millions of Russian Roubles unless otherwise stated)

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

Financial instruments by categories:

| 31 December 2012 | Loans and receivables | Investments available for sale | Other financial liabilities | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale investments (Note 9) | - | 50,617 | - | 50,617 |
| Long-term promissory notes (Note 10) | 1,457 | - | - | 1,457 |
| Other non-current assets (Note 11) | 3,382 | - | - | 3,382 |
| Cash and cash equivalents (Note 12) | 24,056 | - | - | 24,056 |
| Bank deposits (Note 13) | 980 | - | - | 980 |
| Short-term promissory notes (Note 10) | 23,380 | - | - | 23,380 |
| Loans given | 38 | - | - | 38 |
| Accounts receivable (Note 14) | 22,016 | - | - | 22,016 |
| **Total financial assets** | **75,309** | **50,617** | **-** | **125,926** |
| **Financial liabilities** | | | | |
| Non-current debt (Note 18) | - | - | 193,200 | 193,200 |
| Accounts payable to the shareholders of FGC UES (Note 16) | - | - | 3,257 | 3,257 |
| Current debt and current portion of non-current debt (Note 20) | - | - | 23,218 | 23,218 |
| Accounts payable and accrued charges (Note 21) | - | - | 31,442 | 31,442 |
| **Total financial liabilities** | **-** | **-** | **251,117** | **251,117** |

| 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 18) | - | - | 130,778 | 130,778 |
| Accounts payable to the shareholders of FGC UES (Note 16) | - | - | 2,275 | 2,275 |
| Current debt and current portion of non-current debt (Note 20) | - | - | 2,002 | 2,002 |
| Accounts payable and accrued charges (Note 21) | - | - | 30,641 | 30,641 |
| **Total financial liabilities** | **-** | **-** | **165,696** | **165,696** |

***(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 2012 the interest rates on the borrowing are fixed.

(in millions of Russian Roubles unless otherwise stated)

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

***(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 corporate finance department. The total amount of investments available-for-sale exposed to the market risk equals RR 50,617 million. As at 31 December 2012, 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 248 million before tax, and profit before tax would increase (decrease) by RR 4,814 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.

***(b) Credit risk.***

The amounts exposed to credit risk are as follows:

| **31 December 2012** | 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 | 1,457 | 3,382 | 24,056 | 980 | 22,938 | 17 | 17,244 |
| Not overdue, but impaired: | - | - | - | - | - | - | - |
| *- gross amount* | 12,022 | *580* | - | - | - | - | *99* |
| *- less impairment provision* | (12,022) | *(580)* | - | - | - | - | *(99)* |
| Overdue, but not impaired | - | - | - | - | 442 | 21 | 4,772 |
| Overdue and impaired: | - | - | - | - | - | - | - |
| *- gross amount* | - | - | - | - | - | - | *5,429* |
| *- less impairment provision* | - | - | - | - | - | - | *(5,429)* |
| **Total amount** | **1,457** | **3,382** | **24,056** | **980** | **23,380** | **38** | **22,016** |

| **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 | 9,758 |
| Not overdue, but impaired: | 9,197 | - | - | - | - | - | - |
| *- gross amount* | *12,022* | *90* | - | - | - | - | *600* |
| *- less impairment provision* | *(2,825)* | *(90)* | - | - | - | - | *(600)* |
| Overdue, but not impaired | - | 16 | - | - | - | 443 | 3,210 |
| Overdue and impaired: | - | - | - | - | - | - | - |
| *- gross amount* | - | *18* | - | - | - | *15* | *6,878* |
| *- less impairment provision* | - | *(18)* | - | - | - | *(15)* | *(6,878)* |
| **Total amount** | **14,928** | **116** | **25,627** | **1,184** | **20,737** | **448** | **12,968** |

As at 31 December 2012 the amount of financial assets, which were exposed to credit risk, was RR 75,309 million (as at 31 December 2011: RR 76,008 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, or related to the Government of the RF. Historical data, including payment histories during the recent credit crisis, would suggest that the risk of default from such customers is very low.

(in millions of Russian Roubles unless otherwise stated)

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

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. Promissory notes are generally from Russian banks with minimum credit rating not below BB- by Standard & Poor's or Ba3 by Moody’s. 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.

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

| | Less than 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **As at 31 December 2012** | | | | | |
| Non-current and current debt and interest payable (Notes 18, 20) | 40,649 | 65,210 | 111,748 | 67,233 | 284,840 |
| Accounts payable to the shareholders of FGC UES (Note 16) | 3,257 | - | - | - | 3,257 |
| Accounts payable and accrued charges (Note 21) | 31,442 | - | - | - | 31,442 |
| **Total as at 31 December 2012** | **75,348** | **65,210** | **111,748** | **67,233** | **319,539** |
| **As at 31 December 2011** | | | | | |
| Non-current and current debt and interest payable (Notes 18, 20) | 32,735 | 60,431 | 46,331 | 37,245 | 176,742 |
| Accounts payable to the shareholders of FGC UES (Note 16) | 2,275 | - | - | - | 2,275 |
| Accounts payable and accrued charges (Note 21) | 30,641 | - | - | - | 30,641 |
| **Total as at 31 December 2011** | **65,651** | **60,431** | **46,331** | **37,245** | **209,658** |

***(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 2012 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 Grid” 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. Management considers that a breach of above mentioned requirements will not have material effect on the Group’s consolidated financial statements.

(in millions of Russian Roubles unless otherwise stated)

## Note 30. Capital risk management (continued)

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 2012 the Company’s gearing ratio calculated under RAR was 0.25 (as at 31 December 2011: 0.15).

## Note 31. Segment information

The Group operates wihin one operating segment. The Group’s single primary activity is provision of electricity transmission services within the Russian Federation which is represented as Transmission segment. This segment comprises JSC “FGC UES”, LLC “Index energetiki – FGC UES”, OJSC “The Kuban trunk grids”, OJSC “The Tomsk trunk grids”, and maintenance (service) subsidiaries – OJSC “The principle electricity transmission service company of the UNEG” and OJSC “Specialised electricity transmission service company of the UNEG” which are engaged in maintenance services (repair and restoration) for the UNEG.

The Board of Directors of the Company has been determined as chief operating decision maker (the “CODM”) of the Group which generally analyses information relating to Transmission segment. The Board of Directors 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 the 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 2012** | **Year ended 31 December 2011** |
| Revenue from external customers | 139,257 | 137,450 |
| Intercompany revenue | 355 | 337 |
| **Total revenue** | **139,612** | **137,787** |
| Depreciation and amortisation * | 60,111 | 40,092 |
| Interest income | 4,409 | 4,253 |
| Interest expenses | 59 | 69 |
| Current income tax | 1,529 | 8,413 |
| Loss for the year | (31,601) | (15,597) |
| Capital expenditure | 164,394 | 166,582 |

| | **31 December 2012** | **31 December 2011** |
|---|---|---|
| Total reportable segment assets | 1,151,565 | 1,072,677 |
| Total reportable segment liabilities | 323,824 | 233,819 |

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

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| **Total revenue from segment (RAR)** | **139,612** | **137,787** |
| Reclassification between revenue and other income | (1,427) | (367) |
| Non-segmental revenue | 2,483 | 2,488 |
| Elimination of intercompany revenue | (355) | (337) |
| **Total revenue (IFRS)** | **140,313** | **139,571** |

(in millions of Russian Roubles unless otherwise stated)

## Note 31. Segment information (continued)

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Loss for the year (RAR)** | **(31,601)** | **(15,597)** |
| **Property, plant and equipment** | | |
| Adjustment to the carrying value of property, plant and equipment | 18,372 | 8,129 |
| Reversal of impairment / (impairment) of property, plant and equipment | 512 | (808) |
| **Financial instruments** | | |
| Reversal of re-measurement of available-for-sale investments and investments in associates | 22,870 | 36,645 |
| Adjustment to the gain on disposal of available-for-sale investments and investments in associates | - | 28,927 |
| Impairment of available-for-sale investments | (18,941) | (12,661) |
| Reversal of impairment of investments in associates | 313 | - |
| Loss on re-measurement of assets held for sale | - | (4,718) |
| Discounting of promissory notes | (493) | (764) |
| Reversal of impairment of promissory notes | 3,460 | - |
| **Consolidation** | | |
| Reversal of impairment of investments in subsidiaries | 916 | 1,518 |
| Reversal of impairment of intercompany promissory notes | 6,904 | 13,037 |
| Reversal of re-measurement of treasury shares | 1,073 | 1,200 |
| **Other** | | |
| Write-off of research and development to expenses | (351) | (656) |
| Share of result of associates | 21 | 8 |
| Adjustment to allowance for doubtful debtors | (298) | (4,316) |
| Share-based compensation | (605) | (1,342) |
| Accrual of retirement benefit obligations | (130) | (236) |
| Deferred tax adjustment | 8,231 | 614 |
| Other adjustments | 500 | 306 |
| Non-segmental other operating loss | (3,710) | (298) |
| **Profit for the year (IFRS)** | **7,043** | **48,988** |

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Total reportable segment liabilities (RAR)** | **323,824** | **233,819** |
| Netting of VAT recoverable and payable | (3,976) | (6,701) |
| Netting of advances and payables | (46) | (1,043) |
| Recognition of finance lease liabilities | 778 | 849 |
| Accrual of retirement benefit obligations | 4,919 | 4,495 |
| Deferred tax liabilities adjustment | 63,229 | 71,515 |
| Accrual of payables recognised in another accounting period | 126 | 769 |
| Other adjustments | 65 | 136 |
| Non-segmental liabilities | 18,559 | 17,659 |
| Elimination of intercompany balances | (55,033) | (55,928) |
| **Total liabilities (IFRS)** | **352,445** | **265,570** |

(in millions of Russian Roubles unless otherwise stated)

## Note 31. Segment information (continued)

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Total reportable segment assets (RAR)** | **1,151,565** | **1,072,677** |
| **Property, plant and equipment** | | |
| Adjustment to the carrying value of property, plant and equipment | 147,674 | 147,661 |
| Reversal of impairment of property, plant and equipment | 549 | 37 |
| Recognition of property, plant and equipment under finance lease | 790 | 861 |
| **Financial instruments** | | |
| Adjustment to cost of investments in associates | 431 | (62) |
| Adjustment to cost of available-for-sale investments | 5,658 | (3,881) |
| Discounting of promissory notes | (900) | (3,867) |
| **Consolidation** | | |
| Reversal of impairment of investments in subsidiaries | 8,014 | 7,098 |
| Reversal of impairment of intercompany promissory notes | 23,607 | 16,703 |
| Reversal of re-measurement of treasury shares | (2,765) | (3,838) |
| Unrealised profit adjustment | (3,448) | (2,020) |
| Elimination of investments in subsidiaries | (23,462) | (23,462) |
| Elimination of intercompany balances | (55,033) | (55,928) |
| **Other** | | |
| Write-off of research and development to expenses | (2,611) | (2,260) |
| Adjustment to allowance for doubtful debtors | 2,511 | 2,809 |
| Deferred tax assets adjustment | (6,151) | (3,895) |
| Netting of VAT recoverable and payable | (3,976) | (6,701) |
| Netting of advances and payables | (46) | (1,043) |
| Other adjustments | 800 | 1,163 |
| Non-segmental assets | 17,034 | 21,625 |
| **Total assets (IFRS)** | **1,260,241** | **1,163,677** |

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 22.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 government-related entities. 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 2013, the Company completed and registered an additional share issue. As the result of this share issue 6,754,357,256 ordinary shares with a nominal value of RR 0.5 per share were placed for a consideration of RR 3,250 million in cash and other assets at the cost of RR 127 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 79.55 to 79.64 per cent. Cash proceeds from the share issue will be used for financing of the investment program of the Company.

***Bonds issue.*** In January 2013, the Group issued certified interest-bearing non-convertible bearer bonds of Series 24 with a total nominal value of RR 10,000 million, an interest rate fixed for the first 14 coupons at 8.0 percent, maturity in January 2028, and embedded put option in January 2020. The interest is payable every six months during the terms of the bonds.

***Repayment of debt.*** In January and March 2013, the Group made a full early repayment of two loans issued by OJSC “Gazprombank” in the amount of RR 10,000 million each.