The Company's 2012 investment plans were practically fulfilled. Specifically, plans on the introduction of high voltage lines were fulfilled at 91% (3,643 km against 4,023 planned km), whereas, the plans on the introduction of substations were over-fulfilled by 26% (17,852 MVA against 14,152 planned MVA). The volume of the application of funds steadily exceeds financing volume. At the same time, a significant (33%) over-fulfillment of the indicator for the placement of objects into operation for the first time in Company history allowed for a decrease in the volume of construction-in-progress compared with the previous year and confirmed the effectiveness of regulation based on long-term parameters.

Detailed information about the Company's investment program is available at the official website in the section Operations / Investments.

Innovation

During the reporting period our Company adopted and approved the Program of Innovative Development until 2020. The main objective of the Program is to increase the reliability, efficiency and safety of the main electric grid complex and the power industry as a whole via innovative technologies and solutions.

Our program provides for the achievement of key effectiveness indicators for the Company's innovative development till 2020. In 2012, for the Company, most of the key effectiveness indicators for innovative development reached targeted values and in some cases, even exceeded them.

In 2012, the volume of financing for research and development reached 2.9 billion rubles.

Financial Results

This chapter contains selected financial information which has been derived from the Group's audited consolidated financial statement as at and for the year ended 31 December 2012, prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the European Union. The selected financial and operating data below should be read in conjunction with the Group's consolidated financial statement prepared in accordance with IFRS.

Summary of results

For the years ended 31 December 2012 and 2011, our revenue amounted to RUR140,313 million and RUR139,571 million, respectively.

For the years ended 31 December 2012 and 2011, our profit for the period amounted to RUR7,043 million and RUR48,988 million, respectively.

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Revenues	**140,313**	**139,571**
Other operating income	3,543	7,793
Operating expenses	(110,630)	(100,750)
Gain on disposal of available-for-sale investments	-	31,115
Loss on re-measurement of assets held for sale	-	(4,718)
Reversal of impairment / (impairment) of property, plant and equipment, net	53	(1,174)
Operating profit	**33,279**	**71,837**
Finance income	4,113	3,957
Finance costs	(214)	(278)
Impairment of available-for-sale investments	(18,941)	(12,661)
Impairment of promissory notes, net	(9,772)	-
Reversal of impairment of investments in associates	313	-
Share of result of associates	21	8
Profit before income tax	**8,799**	**62,863**
Income tax	(1,756)	(13,875)
Profit for the year	**7,043**	**48,988**

Consolidated Statement of Financial Position (IFRS)

(in millions of rubles)	31 December 2012	31 December 2011
ASSETS		
Non-current assets		
Property, plant and equipment	1,096,535	980,677
Intangible assets	9,319	6,973
Investments in associates	1,403	910
Available-for-sale investments	50,617	69,979
Long-term promissory notes	1,457	14,928
Other non-current assets	4,498	1,039
Total non-current assets	**1,163 829**	**1,074,506**
Current assets		
Cash and cash equivalents	24,056	25,627
Bank deposits	980	1,184
Short-term promissory notes	23,380	20,737
Loans given	38	448
Accounts receivable and prepayments	38,808	32,944
Income tax prepayments	2,143	1,911
Inventories	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	630,193	627,974
Treasury shares	(4,917)	(5,522)
Share premium	10,501	10,501
Reserves	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**

(in millions of rubles)	31 December 2012	31 December 2011
Non-current liabilities		
Deferred income tax liabilities	80,615	80,572
Non-current debt	193,200	130,778
Retirement benefit obligations	5,164	4,686
Total non-current liabilities	**278,979**	**216,036**
Current liabilities		
Accounts payable to shareholders of FGC UES	3,257	2,275
Current debt and current portion of non-current debt	23,218	2,002
Accounts payable and accrued charges	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**

Summary of the Consolidated Statement of Cash Flows (IFRS)

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Net cash generated by operating activities	70,306	68,645
Net cash used in investing activities	(145,711)	(124,743)
Net cash generated by financing activities	73,834	68,152
Net (decrease) / increase in cash and cash equivalents	**(1,571)**	**12,054**

Non-IFRS Financial Information

(in millions of rubles, except for margins and ratios in %)	Year ended 31 December 2012	Year ended 31 December 2011
EEBITDA	49,379	93,236
EBITDA margin (1)	35.2%	66.8%
Adjusted EBITDA	82,133	83,760
Adjusted EBITDA margin (1)	58.5%	60.0%
Adjusted operating profit (2)	33,520	46,614
Adjusted operating profit margin (1)	23.9%	33.4%
Adjusted profit for the period (3)	29,956	38,241
Return on assets (4)	2.5%	3.4%
Return on equity (5)	3.3%	4.3%

(1) Margins are calculated as EBITDA, adjusted EBITDA and adjusted operating profit divided by the total revenue for the period;

(2) Adjusted operating profit is calculated as operating profit adjusted for gain on disposal of available-for-sale investments (only in 2011)), loss on re-measurement of assets held for sale (only in 2011), and non-specific impairment of property, plant and equipment;

(3) Adjusted profit for the period is calculated as profit for the period adjusted for gain on disposal of available-for-sale investments (only in 2011), loss on re-measurement of assets held for sale (only in 2011), non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes (only in 2012), and reversal of impairment of investments in associates (only in 2012) (including respective deferred income tax);

(4) Return on assets is calculated as adjusted profit for the period divided by the average total assets for the period;

(5) Return on equity is calculated as adjusted profit for the period divided by the average total equity for the respective period. For the purpose of this ratio, amounts received from shareholders of Federal Grid Company for the additional share issues prior to the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company) are treated as an element of equity.

The indicators presented above are not financial performance measures that are required by, or presented in accordance with IFRS. Accordingly, they should not be considered as alternatives to profit for the period as a measure of operating performance or to cash flows from operating activities as a liquidity measure. Our calculation of these ratios may be different from calculations used by other companies and therefore comparability may be limited. We believe that EBITDA and Adjusted EBITDA provide useful information to investors, because they are indicators of the strength and performance of our ongoing business operations and indicators of our ability to fund discretionary spending, such as: capital expenditures, the acquisition of subsidiaries and other investments and our ability to incur and service debt. While depreciation and amortisation are considered operating costs under IFRS, these expenses primarily represent non-cash current period allocations of costs associated with long-lived assets that have been acquired or constructed in prior periods.

Adjusted profit for the period

Adjusted profit for the period is used to calculate the return on assets and the return on equity indicators. The following table sets forth a reconciliation of adjusted profit for the period to profit for the periods indicated:

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the period	**7,043**	**48,988**
Adjustments to profit for the period:		
Gain on disposal of available-for-sale investments	-	(31,115)
Loss on re-measurement of assets held for sale	-	4,718
Non-specific impairment of property, plant and equipment	241	303
Impairment of available-for-sale investments	18,941	12,661
Impairment of promissory notes	9,772	-
Reversal of impairment on investments in associates	(313)	-
Deferred income tax on adjustments (1)	(5,728)	2,687
Adjusted profit for the period (1)	**29,956**	**38,241**

(1) Unaudited.

EBITDA and adjusted EBITDA

EBITDA represents profit for the period before income tax, finance income and costs, depreciation and amortisation. Adjusted EBITDA represents EBITDA adjusted to exclude gain on disposal of available-for-sale investments (only in 2011), loss on re-measurement of assets held for sale (only in 2011), non-specific impairment of property, plant and equipment, impairment of available-for-sale investments, impairment of promissory notes (only in 2012), reversal of impairment of investments in associates (only in 2012), and to include finance income.

The following table sets forth a reconciliation of profit for the period to EBITDA and adjusted EBITDA for the periods indicated:

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the period	**7,043**	**48,988**
Add back:		
Income tax	1,756	13,875
Finance income	(4,113)	(3,957)
Finance costs	214	278
Depreciation and amortisation	44,479	34,052
EBITDA (1)	49,379	93,236
Adjustments to EBITDA:		
Gain on disposal of available-for-sale investments	-	(31,115)
Loss on re-measurement of assets held for sale	-	4,718
Non-specific impairment of property, plant and equipment	241	303
Impairment of available-for-sale investments	18,941	12,661
Impairment of promissory notes	9,772	-
Reversal of impairment of investments of associates	(313)	-
Add back:		
Finance income	4,113	3,957
Adjusted EBITDA (1)	**82,133**	**83,760**

(1) Unaudited.

Liquidity ratios and other measures

(in millions of rubles, except for ratios)	As at 31 December 2012	As at 31 December 2011
TCurrent liquidity ratio (1)	1.37	1.89
Cash liquidity ratio (2)	0.69	1.01
Total equity / Total assets ratio (3)	0.72	0.77
Net debt (4)	168,002	85,232

(1) Current liquidity ratio is calculated as total current assets divided by total current liabilities. For the purpose of this ratio, the amounts received from shareholders of Federal Grid Company for the additional share issues prior to the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company) are excluded from current liabilities;

(2) The cash liquidity ratio is calculated as a sum of cash and cash equivalents, short-term bank deposits and short-term promissory notes divided by total current liabilities. For the purpose of this ratio, the amounts received from shareholders of Federal Grid Company for the additional share issues prior to the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company), are excluded from current liabilities;

(3) For the purpose of this ratio, the amounts received from shareholders of Federal Grid Company for the additional share issues before the registration of these issues (recorded as accounts payable to shareholders of Federal Grid Company) are treated as an element of equity;

(4) Net debt represents non-current and current debt reduced by cash and cash equivalents, short-term bank deposits and short-term promissory notes.

Revenues

The Group's revenues are derived primarily from the provision of electricity transmission services. Changes in this type of revenues are primarily dependent on changes in tariffs set by the FTS. The Group also earns revenues from the sale of electricity generated and sold to third parties by the Group's subsidiaries.

The Group's revenues increased by RUR742 million, or 0.5%, from RUR139,571 million for the year ended 31 December 2011 to RUR140,313 million for the year ended 31 December 2012.

The table below sets out the Group's revenues for the periods indicated:

(in millions of rubles, except for percentages)	Year ended 31 December 2012	Percentage of total revenue	Year ended 31 December 2011	Percentage of total revenue	Percentage change between the years ended 31 December 2012 and 2011
Transmission fee	136,559	97.3%	134,754	96.6%	1.3%
Electricity sales	2,251	1.6%	2,246	1.6%	0.2%
Other revenues	1,503	1.1%	2,571	1.8%	(41.5)%
Total revenues	140,313	100.0%	139,571	100.0%	0.5%

Transmission fee

The Group's revenue from electricity transmission services increased RUR1,805 million, or 1.3%, from RUR134,754 million for the year ended 31 December 2011 to RUR136,559 million for the year ended 31 December 2012, primarily as a result of an increase in tariffs for transmission services established by the FTS (from 01.07.2012) which was partially compensated by a decrease in revenues from compensation of normative technologic electricity losses.

Electricity sales

The Group's revenue from electricity sales slightly increased by RUR5 million, or 0.2%, from RUR2,246 million for the year ended 31 December 2011 to RUR2,251 million for the year ended 31 December 2012.

Other revenues

Other revenues include revenues from connection services and grid repair and maintenance services. The Group's other revenues decreased by RUR1,068 million, or 41.5%, from RUR2,571 million for the year ended 31 December 2011 to RUR1,503 million for the year ended 31 December 2012.

Other operating income

Other operating income primarily includes income from non-core activities. The Group's other operating income decreased by RUR4,250 million, or 54.5%, from RUR7,793 million for the year ended 31 December 2011 to RUR3,543 million for the year ended 31 December 2012 primarily due to one-off effects in 2011: write-off of accounts payable of OJSC "Nurenergo" in the amount of RUR2,747 million and insurance compensation for the accident at Chagino substation.

Operating expenses

The table below sets out the Group's operating expenses for the periods indicated.

(in millions of rubles, except for percentages)	Year ended 31 December 2012	Percentage of total revenue	Year ended 31 December 2011	Percentage of total revenue	Percentage change between the years ended 31 December 2012 and 2011
Depreciation of property, plant and equipment and amortisation of intangible assets	44,479	40.2%	34,052	33.8%	30.6%
Employee benefit expenses and payroll taxes	26,311	23.8%	24,046	23.9%	9.4%
Purchased electricity	13,320	12.0%	13,781	13.7%	(3.3)%
Repair and maintenance services	3,732	3.4%	3,666	3.6%	1.8%
(Reversal) / accrual of allowance for doubtful debtors	(1,405)	(1.3)%	4,305	4.3%	-
Other expenses	24,193	21.9%	20,900	20.7%	15.8%
Total operating expenses	**110,630**	**100.0%**	**100,750**	**100.0%**	**9.8%**

(1) As presented in comparative information in the 2012 audited consolidated financial statements.

The Group's operating expenses increased by RUR9,880 million, or 9.8%, from RUR100,750 million for the year ended 31 December 2011 to RUR110,630 million for the year ended 31 December 2012.

Depreciation of property, plant and equipment and amortisation of intangible assets

The Group's depreciation and amortisation expenses increased by RUR10,427 million, or 30.6%, from RUR34,052 million for the year ended 31 December 2011 to RUR44,479 million for the year ended 31 December 2012, primarily due to new property, plant and equipment put into operation..

Employee benefit expenses and payroll taxes

The Group's employee benefits expenses and payroll taxes expenses increased by RUR2,265 million, or 9.4%, from RUR24,046 million for the year ended 31 December 2011 to RUR26,311 million for the year ended 31 December 2012. The growth is primarily explained by an increase in the average number of employees by 4.4% and an increase in average salaries due to indexation of remuneration. The increase was partially compensated by a decrease in recognition of share-based compensation in accordance with the Option program (by RUB 737 million) due to oncoming vesting date.

Purchased electricity

Federal Grid Company purchases electricity to compensate electricity losses which occur during transmission. The Group's electricity purchases dropped by RUR461 million, or 3.3%, from RUR13,781 million for the year ended 31 December 2011 to RUR13,320 million for the year ended 31 December 2012. The decrease in purchased electricity expenses was due to a reduction of actual volumes of electricity losses during transmission owing to increased the UNEG efficiency as well as a result of decreased wholesale electricity prices.

Repair and maintenance services

The Group's expenses for repair and maintenance services obtained from external contractors slightly increased by RUR66 million, or 1.8%, from RUR3,666 million for the year ended 31 December 2011 to RUR3,732 million for the year ended 31 December 2012.

(Reversal) / accrual of allowance for doubtful debtors

After a detailed analysis of accounts receivable as at 31 December 2012, the Group recognised a net reversal of the allowance for doubtful debtors in the amount of RUR1,405 million for the year ended 31 December 2012. This amount includes a reversal of the previously impaired receivables for transmission services from OJSC "IDGC of Siberia" in the amount of RUR2,714 million. For the year ended 31 December 2011, the Group recognised a net accrual of the allowance in the amount of RUR4,305 million.

Gain on disposal of available-for-sale investments

The gain of RUR31,115 million recognised in 2011 resulted from accumulated gain on available-for-sale investments recycled to profit or loss, in connection with the one-off transfer of shares in electricity generating companies to OJSC "INTER RAO UES" ("INTER RAO").

Loss on re-measurement of assets held for sale

In 2011, all investments previously classified as non-current assets held for sale, except for JSC UES "GruzRosEnergo", were transferred to INTER RAO. Loss on re-measurement of these assets amounted to RUB 4,718 million.

Reversal of impairment / (impairment) of property, plant and equipment

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 RUR53 million. For the year ended 31 December 2011 the Group recognised a net impairment of property, plant and equipment in the amount of RUR1,174 million, which primarily consisted of an impairment of advances to construction companies and suppliers of property, plant and equipment.

Finance income

Finance income increased by RUR156 million, or 3.9%, from RUR3,957 million for the year ended 31 December 2011 to RUR4,113 million for the year ended 31 December 2012, primarily due to an increase in interest income.

Finance costs

Finance costs decreased by RUR64 million, or 23.0%, from RUR278 million for the year ended 31 December 2011 to RUR214 million for the year ended 31 December 2012, primarily due to a decrease of loss on initial recognition of promissory notes.

Impairment of available-for-sale investments

Impairment of available-for-sale investments increased by RUB 6,280 million, or 49.6%, from RUR12,661 million for the year ended 31 December 2011 to RUR18,941 million for the year ended 31 December 2012. The loss recognised in both years was attributable to an impairment of shares in INTER RAO due to a significant and prolonged decline in the fair value of these equity investments below their cost. The increase in impairment loss was due to the fact that shares in INTER RAO were held by the Group for the whole year of 2012 and only for nine months in 2011.

Impairment of promissory notes

In the year ended 31 December 2012 the Group fully impaired long-term promissory notes issued by LLC "ENERGO-finance" which resulted in recognition of a net impairment of promissory notes in the amount of RUR9,772 million.

Reversal of impairment of investments in associates

For the year ended 31 December 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 accrued in 2007 and 2011 in the total amount of RUR313 million was reversed.

Share of results of associates

The share of results of associates increased by RUR13 million, or 162.5%, from a net income of RUR8 million for the year ended 31 December 2011 to a net income of RUR21 million for the year ended 31 December 2012.

Profit before income tax

Profit before income tax decreased by RUR54,064 million, or 86.0%, from RUR62,863 million for the year ended 31 December 2011 to RUR8,799 million for the year ended 31 December 2012.

Income tax

Income tax expense decreased by RUR12,119 million, or 87.3%, from RUR13,875 million for the year ended 31 December 2011 to RUR1,756 million for the year ended 31 December 2012. Change in income tax expense was caused by a decrease of current income tax in the amount of RUR6,959 million, as a result of reduction the tax base, as well as a decrease of deferred income tax in the amount of RUR5,160 million.

Profit for the period

As a result of the above-mentioned factors, profit for period decreased by RUR41,945 million, or 85.6%, from RUR48,988 million for the year ended 31 December 2011 to RUR7,043 million for the year ended 31 December 2012.

Liquidity and Capital Resources

The Group's primary sources of liquidity are cash generated via operating activities and debt and equity financing. Future requirements for the Group's business needs, including those to fund additional capital expenditures in accordance with its business strategy, are expected to be financed by a combination of cash flows generated by the Group's operating activities, as well as external financing sources and funds from the Russian Government.

Capital requirements

The electricity transmission business is capital-intensive and many of the Group's facilities are aging and require regular maintenance and upgrades. Expenditures to maintain, expand and increase the efficiency and size of the transmission grid are, accordingly, an important priority and have a significant effect on the Group's cash flows and future operating results.

The table below sets out total additions to property, plant and equipment for the periods indicated.

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
Total additions to property, plant and equipment	162,232	166,073

Liquidity and working capital

ГThe Group relies on cash from its operating activities, debt financing and proceeds from the issuance of additional shares of the Company as its main sources of liquidity and working capital.

Historical cash flows

The table below summarizes the Group's cash flows for the periods indicated.

(in millions of rubles)	Year ended 31 December 2012	Year ended 31 December 2011
ЧNet cash generated by operating activities	70,306	68,645
Net cash used in investing activities	(145,711)	(124,743)
Net cash generated by financing activities	73,834	68,152
Net (decrease) / increase in cash and cash equivalents	(1,571)	12,054

Net cash generated by operating activities

Net cash generated by the Group's operating activities increased by RUR1,661 million, or 2.4%, from RUR68,645 million for the year ended 31 December 2011 to RUR70,306 million for the year ended 31 December 2012. This happened primarily due to a decrease in income tax payments which was partially offset by a decrease in operating cash flows before working capital changes and income tax paid.

Net cash used in investing activities

Net cash used in the Group's investing activities increased by RUR20,968 million, or 16.8%, from RUR124,743 million for the year ended 31 December 2011 to RUR145,711 million for the year ended 31 December 2012. This happened primarily due to a decrease in proceeds received from redemption of promissory notes by RUR19,563 million and redemption of bank deposits by RUR6,084 million.

Net cash generated by financing activities

Net cash generated by the Group's financing activities increased by RUR5,682 million, or 8.3%, from RUR68,152 million for the year ended 31 December 2011 to RUR73,834 million for the year ended 31 December 2012. This happened primarily due to a decrease in repayment of current borrowings (by RUB 6,400 million) and in dividends paid (by RUB 2,543 million) as well as an increase in proceeds from non-current borrowings (by RUB 2,500 million), which was partially compensated by an increase in interest paid (by RUB 6,659 million).

Debt

As at 31 December 2012, the Group's total debt amounted to RUR216,418 million as compared with RUR132,780 million as at 31 December 2011.

The following table sets out the Group's current debt and non-current debt for the periods indicated.

(in millions of rubles)	As at 31 December 2012	As at 31 December 2011
Current debt and current portion of non-current debt	23,218	2,002
Non-current debt	193,200	130,778
Total debt	**216,418**	**132,780**

As at 31 December 2012, the Group's non-current debt amounted to RUR193,200 million and was comprised of certified interest-bearing non-convertible ruble-denominated bearer bonds with an aggregate nominal value of RUR130,000 million, Stock Exchange authorised certified interest-bearing non-convertible ruble-denominated bearer bonds with a nominal value of RUR10,000 million, loan participation notes with a nominal value of RUR17,500 million, long-term bank loans from OJSC "Gazprombank" in the total amount of RUR35,000 million, and a long-term portion of finance lease liabilities of RUR700 million.