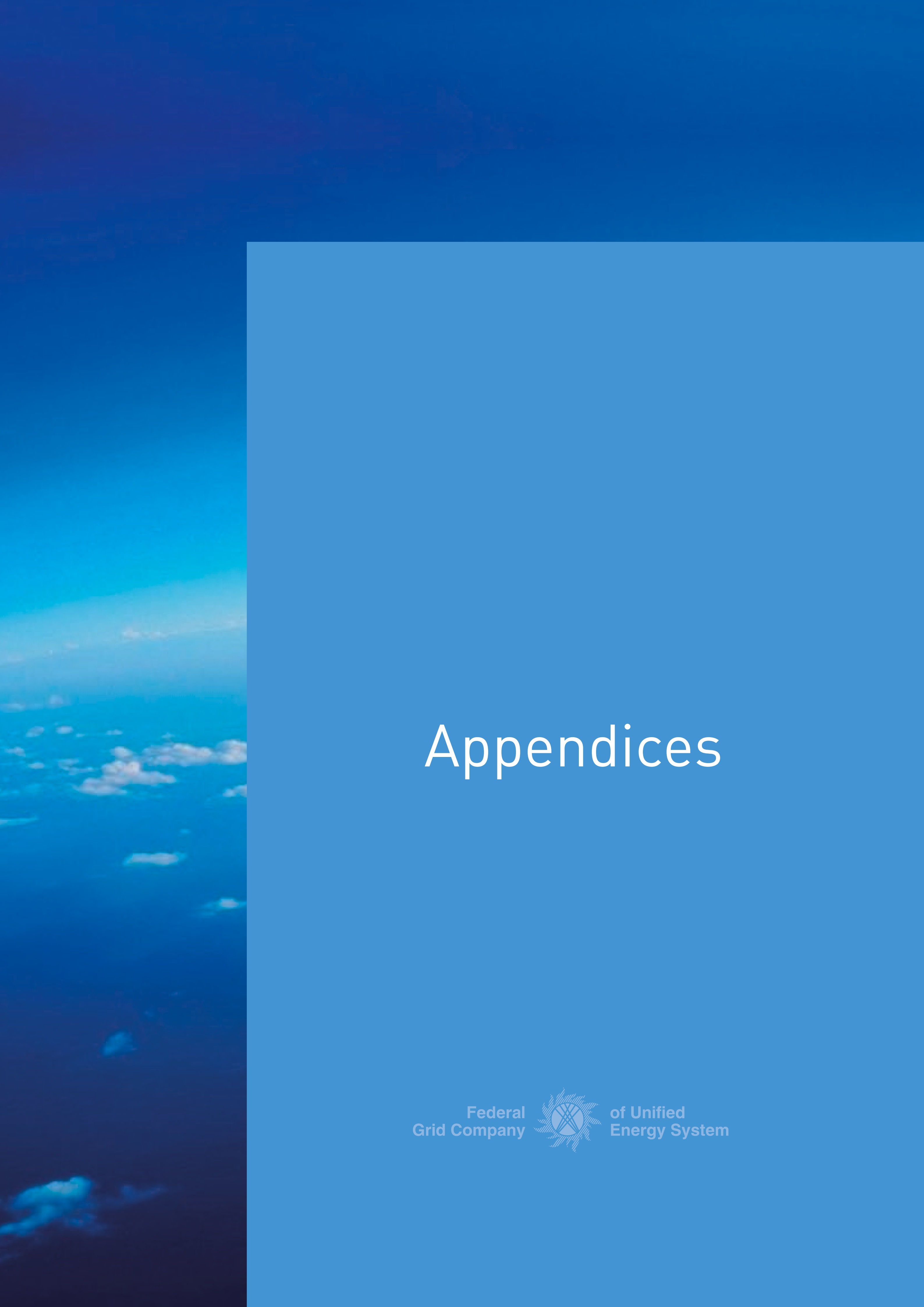

Appendices

Federal Grid Company of Unified Energy System

Contents

Information on Compliance with the FCSM Corporate Code of Conduct

№	CCC Article	Compliant/ Non-compliant	Note
	General Shareholders Meeting		
1	Notifying shareholders about the General Shareholders Meeting at least 30 days prior to the meeting date, irrespective of items included on the agenda, unless a longer notice is stipulated by legislation.	**Compliant**	According to p. 11.4 of Article 11 of the Company's Articles of Association, the 30-day notice on the General Shareholders Meeting shall be sent (or handed over) to each person included in the list of persons authorized to participate in the General Shareholders Meeting. The notice shall also be published in the Rossiyskaya Gazeta newspaper.
2	Shareholders' opportunity to examine the list of persons authorized to participate in the General Shareholders Meeting, starting from the notification date for the General Shareholders Meeting through to closing the internal General Shareholders Meeting, and in case of a meeting held in absentia, till the date for receiving voting ballots expires.	**Compliant**	Any person holding at least 1 percent of votes is entitled to this. Document data and postal addresses for individuals included on this list are provided only at the consent of these individuals.
3	Shareholders' opportunity to examine information (materials) which are to be submitted during preparation for the General Shareholders Meeting, via electronic communication, including the Internet.	**Compliant**	According to p. 11.5 of Article 11 of the Company's Articles of Association, the shareholders are entitled to within 20 days prior to the General Meeting, and within 30 days prior to the General Meeting in case the General Shareholders Meeting includes an agenda item on re-organizing the Company, to examine materials for the General Shareholders Meeting on the Internet. The information is published on the Company's website at http://fsk-ees.ru/, in the Shareholders and Investors section.
4	Shareholders' opportunity to submit an issue for inclusion on the agenda of the General Shareholders Meeting or to demand that a General Shareholders Meeting be called without giving an extract from the register of shareholders if their rights to shares are registered in the register of shareholders, and the sufficiency of an extract from the depository account for executing the above-mentioned rights if their rights to shares are registered on the depository account.	**Partially compliant**	In accordance with p. 4.7 of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting, when an issue is submitted to the agenda or when an Extraordinary General Shareholders Meeting is called, a shareholder's possession of shares, the rights to which are considered based on the deposit account in the depository, is confirmed by providing an extract from the depository account.
5	Provision in the Articles of Association or internal documents of the joint stock company that require the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Audit Commission and the auditor of the joint stock company at the General Shareholders Meeting.	**Partially compliant**	Paragraph 7.2 of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting requires that the Chairman of the Board of Directors (or the Deputy Chairman of the Board of Directors, or any member of the Board of Directors as assigned by shareholders to be present at the GSM) be Chairman of the GSM.
6	The obligatory presence of candidates during the consideration of issues related to electing members of the Company's Board of Directors, the General Director, members of the Management Board, and members of the Audit Commission, as well as the issue of approving the auditor of the joint stock company at the General Shareholders Meeting.	**Non-compliant**	The obligatory presence of candidates during the consideration of issues related to electing members of the Company's Board of Directors, the General Director, members of the Management Board, members of the Audit Commission, as well as the issue of approving the auditor of the joint stock company at the General Shareholders Meeting is not stipulated in the Company's internal documents, but the candidates for specific positions may be present at the Company's General Shareholders Meeting.
7	A registration procedure for participants at the General Shareholders Meeting in the internal documents of the joint stock company.	**Compliant**	Paragraph.5.1 of Article 5 of the Regulations on the Procedure for Preparing and Holding the General Shareholders Meeting of Federal Grid Company.

№	CCC Article	Compliant/ Non-compliant	Note
	Board of Directors		
8	Provision in the Articles of Association of the joint stock company for the Board of Directors' authority to approve on an annual basis the financial and economic plan of the joint stock company.	**Compliant**	In accordance with p.p.33 and 15.1 of Article 15 of the Company's Articles of Association, the areas of competency for the Board of Directors includes: approving the business plan and targets for the Company's key performance indicators (KPIs).
9	A risk management procedure for the joint stock company, approved by the Board of Directors	**Non-compliant**	This procedure was not approved by the Company's Board of Directors as a separate document.
10	Provision in the Articles of Association of the joint stock company regarding the right of the Board of Directors to make a decision on suspending the authority of the General Director, as appointed by the General Shareholders Meeting	**Not applicable**	The functions of the Company's sole executive body are performed by the Chairman of the Company's Management Board. In accordance with sub-paragraph 10 of paragraph 10.1 of Article 10 of the Company's Articles of Association, the Chairman's election and early termination is an area that falls under the competency of the Company's General Shareholders Meeting.
11	Provision in the Articles of Association of the joint stock company of the right of the Board of Directors to establish requirements for professional skills and remuneration for the General Director, members of the Management Board and the heads of the primary structural divisions of the joint stock company	**Partially compliant**	In accordance with sub-paragraphs 10 and 37 of Paragraph 15.1 of Article 15 of the Company's Articles of Association, areas of competency that fall under the Company's Board of Directors include establishing remuneration and compensation for the Chairman and members of the Company's Management Board.
12	Provision in the Articles of Association of the joint stock company of the right of the Board of Directors to approve contract terms with the General Director and members of the Management Board	**Compliant**	Sub-paragraph 37 of Paragraph 15.1 of Article 15 of the Company's Articles of Association - the Board of Directors approves contract terms with the General Director and members of the Management Board.
13	Provision in the Articles of Association or internal documents of the joint stock company for the requirement stating that votes of members of the Board of Directors, who are either the General Director or members of the Management Board, are not taken into account when voting to approve contract terms with the General Director (a management organization or the managing director) and members of the Management Board	**Compliant**	According to p. 18.10 of the Company's Articles of Association when deciding on the issue stipulated by p.p. 37 and 15.1 of the Company's Articles of Association the votes of members of the Board of Directors, who are simultaneously members of the Company's sole executive body, are not taken into account.
14	Presence on the Board of Directors of the joint stock company of at least three independent directors that meet (independence) requirements of the Corporate Conduct Code	**Compliant**	In accordance with a decision of Federal Grid Company's Annual General Shareholders Meeting on 29 June 2012 (Minutes #12 as of 02.07.2012), the following directors meeting independence requirements were included in the Company's Board of Directors: R.R Sharipov, V.V. Rashevsky, E.B. Titova and I.V. Scherbovich.
15	Absence in the composition of the Board of Directors of the joint stock company of persons who have been found guilty of committing crimes in the sphere of economic activities or crimes against the government, interests of public service and service to local government institutions or who had administrative punishments applied to them for violations of the law in the area of entrepreneurial activity or in the areas of finance, tax and tax collections and the securities market	**Compliant**	There are no such persons in the composition of the Company's Boards of Directors valid throughout 2012.

№	CCC Article	Compliant/ Non-compliant	Note
16	Absence in the composition of the Board of Directors of the joint stock company of persons who are participants, the General Director (managing director), member of a regulatory body or employee of a legal entity that competes with the joint stock company	**Compliant**	There are no such persons in the composition of the Company's Boards of Directors valid throughout 2012.
17	Requirement in the Articles of Association of the joint stock company to elect the Board of Directors via cumulative voting	**Compliant**	According to p. 10.9 of Article 10 of the Company's Articles of Association, during cumulative voting, the number of votes owned by each shareholder is multiplied by the number of persons to be elected to the Company's Board of Directors.
18	Provision in the internal documents of the joint stock company of the obligation of members of the Board of Directors to withdraw from actions that lead or potentially lead to a conflict between their interests and the interests of the joint stock company; obligation to disclose information on this conflict to the Board of Directors in case it occurs	**Compliant**	According to p.p. 4.1.6 of p.4.1 of p.4 of the Company's Code of Corporate Governance, members of the Company's Board of Directors shall refrain from actions which may result in a conflict between their interests and the interests of the Company. In case such a conflict arises, a member of the Company's Board of Directors shall inform the other members of the Board of Directors and also refrain from voting on related issues
19	Provision in the internal documents of the joint stock company that members of the Board of Directors have the duty to notify the Board of Directors in writing of their intention to make transactions with securities of the joint stock company, if they are members of the Board of Directors of this joint stock company or its subsidiaries or dependent companies, as well as to disclose information about the transactions with such securities made by them	**Compliant**	According to p. 16.9 of Article 16 of the Company's Articles of Association, and p. 3 of the Regulation of the Company's Board of Directors, and p.p. 7.2 and 7.3 of the Insider Information Policy, and pp. 4.1.6 and 4.1. of the Company's Code of Corporate Governance, members of the Company's Board of Directors are obliged to disclose information on the sale (disposal) and (or) purchase of Company securities.
20	Provision in the internal documents of the joint stock company of the requirement to hold at least one meeting of the Board of Directors every six weeks	**Non-compliant**	According to p. 6.4 of Article 6 of the Regulation of the Board of Directors, the meetings of the Board of Directors are conducted as necessary, but at least once every quarter.
21	Meetings of the Board of Directors of the joint stock company during the year, which are the subject of the annual report of the joint stock company, are carried out regularly, at least one meeting every six weeks	**Compliant**	On average in 2012, meetings of the Company's Board of Directors were held at least once per month or more.
22	Provision in the internal documents of the joint stock company of a procedure for holding meetings of the Board of Directors	**Compliant**	The Company has an established Regulation of the Board of Directors, approved by a resolution of the Company's Annual General Shareholders Meeting dated 30 June 2009 (Minutes #7, dated 10 June 2009).
23	Provision in the internal documents of the joint stock company of regulations on the necessity of the Company's Board of Directors to approve transactions that amount to 10 percent or more of the cost of the Company's assets, except for transactions made as part of the Company's day-to-day economic activity	**Partially compliant**	Sub-item 27 (a) of Item 15.1 of Article 15 of the Company's Articles of Association stipulates that the Board of Directors grants preliminary approval for corporate transactions that have non-current assets worth more than 10 percent of the balance value as the object of the transactions.
24	Provision in the internal documents of the joint stock company of the right of members of the Board of Directors to receive information required to perform their functions from executive bodies and the heads of the Company's main structural divisions, as well as responsibility for the failure to provide such information	**Compliant**	In accordance with Section 3 of the Regulations on the Board of Directors, members of the Company's Board of Directors are entitled to receive information about the Company's operations, including commercial secrets, and to access all constituent, normative, reporting, accounting, contractual and other corporate documents.
25	The existence of a Strategic Planning Committee of the Board of Directors or another committee assigned with said functions (except for the Audit Committee and the Human Resources and Remuneration Committee)	**Compliant**	The establishment of the Strategy Committee was approved by a decision of the Company's Board of Directors as of 15 May 2008 (Minutes #62). Operational procedures are laid out by the Regulations on the Strategy Committee of Federal Grid Company.

№	CCC Article	Compliant/ Non-compliant	Note
26	The existence of a committee of the Board of Directors (the Audit Committee) which recommends the auditor for the joint stock company to the Board of Directors and cooperates with the auditor and the Audit Commission of the joint stock company.	**Compliant**	The establishment of the Audit Committee was approved by a decision of the Company's Board of Directors as of 15 February 2008 (Minutes #54). Operational procedures are laid out by the Regulations on the Audit Committee of the Board of Directors of Federal Grid Company.
27	The presence of only independent and non-executive directors on the Audit Committee	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 12.09.2012), the Audit Committee consists only of independent and non-executive directors.
28	The Audit Committee is managed by an independent director	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 11.09.2012), the Audit Committee of the Company's Board of Directors is managed by independent director R.R. Sharipov.
29	Provision in internal documents of the joint stock company of the right of all members of the Audit Committee to access any documents and information about the joint stock company provided that they do not disclose confidential information	**Compliant**	Sections 3 and 4 of the Regulations on the Audit Committee of the Board of Directors of Federal Grid Company.
30	Establishing a committee of the Board of Directors (the Human Resources and Remuneration Committee) with the function of defining recruitment criteria for candidates applying for positions of members of the Board of Directors and developing the joint stock company's remuneration policy	**Compliant**	The HR and Remuneration Committee was established by a decision of the Company's Board of Directors as of 15 February 2008 (Minutes #54). The procedure for the Committee's operations is laid out by Regulations on the HR and Remuneration Committee of the Board of Directors of Federal Grid Company.
31	The Human Resources and Remuneration Committee is managed by an independent director	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 12.09.2012), the HR and Remuneration Committee is managed by the independent director D.V. Fyodorov.
32	The absence of officials of the joint stock company on the Human Resources and Remuneration Committee	**Compliant**	Pursuant to a decision of the Company's Board of Directors dated 11.09.2012 (Minutes #172 as of 12.09.2012), the HR and Remuneration Committee consists of persons holding no official positions in the Company.
33	Establishing the Risk Committee under the Board of Directors or assigning these functions to another committee (except for the Audit Committee and the Human Resources and Remuneration Committee)	**Non-compliant**	The Committee has not been established.
34	Establishing the Corporate Conflicts Settlement Committee of the Board of Directors or assigning these functions to another committee (except for the Audit Committee and the Human Resources and Remuneration Committee)	**Non-compliant**	The Committee has not been established.
35	The absence of joint stock company officials on the Corporate Conflicts Settlement Committee	**Not applicable**	The Committee has not been established.
36	The Corporate Conflicts Settlement Committee is managed by an independent director	**Not applicable**	The Committee has not been established.
37	Provisions in internal documents of the joint stock company of procedures for establishing and operating Board of Directors' Committees, approved by the Board of Directors	**Compliant**	Regulations: On the Audit Committee, On the HR and Remuneration Committee, On the Reliability Committee of the Board of Directors, On the Strategy Committee, On the Investment Committee and on the Reliability Committee.
38	Provisions in the Articles of Association of the joint stock company on the process for defining the quorum for the Board of Directors, providing for the obligatory participation of independent directors in Board of Directors' meetings	**Non-compliant**	According to p. 18.2 of the Company's Articles of Association, the quorum to conduct a meeting of the Board of Directors is composed of at least half of the total number of elected members of the Board of Directors.

№	CCC Article	Compliant/ Non-compliant	Note
	Executive bodies		
39	Provision of the collegial executive body (Management Board) of the joint stock company	**Compliant**	According to p.20.1 of Articles 20 and 21 of the Company's Articles of Association, the running activities of the Company are managed also by the Company's Management Board, which is the collegial executive body.
40	Provision in the Articles of Association or internal documents of the joint stock company on regulations on the necessity of the Management Board's approval of transactions with real estate and loans taken out by the joint stock company provided that said transactions are not deemed major transactions and are not part of the day-to-day economic activities of the joint stock company	**Compliant**	In accordance with p.15.1 of Article 15 of the Company's Articles of Association, it is an area of competency under the Board of Directors. At the same time, however, in accordance with Item 6.1 of the Regulations on the Preparation of Materials for the Management Board's meetings, all questions submitted for consideration to the Company's Board of Directors are subject to mandatory preliminary considerations by the Company's Management Board.
41	Provision in the internal documents of the joint stock company on the procedure for approving operations beyond the financial and economic plan of the joint stock company	**Partially compliant**	The Regulation on the Company's internal control (as approved by a decision of the Company's Board of Directors, Minutes #170 as of 02.08.2012) envisages the establishment in the Company of an efficient internal control system and the setting of a procedure for the interaction of the Company's control departments integrated into the internal control system, with responsibilities strictly assigned. In part, these questions are outlined by the Regulations on the Procedure for Placing Temporarily Disposable Free Funds of Federal Grid Company (approved by the Management Board of Federal Grid Company, Minutes #528 as of 24 April 2008) and by the Regulations on Debt Management Procedure (approved by the Company's Board of Directors, Minutes #44 as of 29 May 2007).
42	Absence in the composition of the executive bodies of persons who are either participants, the General Director (the managing director), members of the management body or employees of a legal entity that competes with the joint stock company	**Compliant**	There are no such persons in the executive body.
43	Absence in the structure of the executive bodies of the joint stock company of persons who were found guilty of committing crimes in the area of economic activities or crimes against the government, interests of public service and service in local government institutions, or of persons who experienced administrative punishments for violations in the area of business activity or in the areas of finance, taxes, fiscal charges and the securities market. If functions of the sole executive body are carried out by a management organization or a managing director, the General Director and members of the Management Board of the management organization or the managing director must meet the requirements of the General Director and members of the Management Board of the joint stock company	**Compliant** **Non-compliant**	There are no such persons in the executive body.
44	Provision in the Articles of Association or internal documents of the joint stock company to prohibit the management organization (the managing director) from carrying out similar functions in a competing company, as well as to be in any other material relationship with the joint stock company, besides rendering the services of the management organization (the managing director)	**Compliant**	This prohibition is not provided for by the Company's Articles of Association or by any other documents.

№	CCC Article	Compliant/ Non-compliant	Note
45	Provision in internal documents of the joint stock company of the duties of the executive bodies to withdraw from actions leading or potentially leading to a conflict of interest and the interests of the joint stock company, and duties to inform the Board of Directors if such a conflict occurs	Non-compliant	According to p. 4.2.7 of the Company's Code of Corporate Governance, the Chairman and members of the Management Board shall refrain from actions which may result in a conflict between their interests and the interests of the Company. In case such a conflict arises, the Chairman or a member of the Company's Management Board shall inform the Board of Directors and shall also refrain from discussing and voting on related issues.
46	Provision in the Articles of Association or internal documents of the joint stock company of criteria for electing the management organization (the managing director)	Non-compliant	The Company's Articles of Association or any other documents do not contain any selection criteria for management organizations, as the Company has no intentions to attract one to perform the functions of the Company's sole executive body.
47	The joint stock company's executive bodies present monthly performance reports to the Board of Directors	Compliant	Reports by the Chairman of the Company's Management Board are provided on a quarterly basis (sub-paragraph 14 of paragraph 22.1 of Article 22 of the Company's Articles of Association).
48	Liability for infringing on the provisions for using confidential and proprietary information stated in contracts concluded by the joint stock company with the General Director (the management organization, the managing director) and members of the Management Board	Compliant	Contracts signed by the Company with the Chairman of the Management Board and members of the Management Board outline the liability for violations of provisions on the use of confidential and proprietary information.
	Company Secretary		
49	Presence in the joint stock company of a specific official (the Company Secretary) whose task is to ensure the compliance of bodies and officials of the joint stock company with procedural requirements guaranteeing the execution of rights and the legitimate interests of the Company's shareholders	Compliant	The function is performed by the Secretary of the Company's Board of Directors.
50	The process of appointing (electing) the Company Secretary and his/her duties are stipulated by the Articles of Association or internal documents of the joint stock company	Non-compliant	Article 4 of the Regulations on the Board of Directors.
51	Provision in the Articles of Association of the joint stock company for requirements for candidates for the position of the Company's Secretary	Compliant	There are no such requirements.
	Material Corporate Actions		
52	Presence in the Articles of Association of the joint stock company of a prohibition to undertake any action when acquiring (taking over) a large stake of shares of the joint stock company (takeover) aimed at protecting the interests of executive bodies (members of these bodies) and members of the Board of Directors of the joint stock company, as well as actions worsening the shareholders' positions compared with their existing position (in particular, a prohibition against the Board of Directors on making decisions on the issue of additional shares, the issue of securities that are convertible into shares or securities enabling a person to purchase shares of the Company before the termination of the Prospectus even if the right to make these decisions is granted by the Articles of Association)	Compliant	This prohibition is not provided for by the Company's Articles of Association.

№	CCC Article	Compliant/ Non-compliant	Note
53	Requirement in the Articles of Association or internal documents of the joint stock company to approve a major transaction prior to its fulfillment	Non-compliant	Sub-paragraph 16 of paragraph 10.2 of Article 10 and sub-paragraph 20 of paragraph 15.1 of Article 15 of the Company's Articles of Association.
54	Obligatory involvement of an independent appraiser in evaluating the market value of the property which is the subject of the major transaction	Non-compliant	Said deals involve the services of an independent appraiser.
55	Requirement in the Articles of Association of the joint stock company of the obligatory involvement of an independent appraiser to estimate the current market share price and possible changes in the share price as the result of a takeover	Compliant	This requirement is not provided for by the Company's Articles of Association. But in case the Company is re-organized, the decision on re-organization will be based, among other things, on the results of the estimation of the current market price of the Company's property and shares.
56	Absence in the Articles of Association of the joint stock company of the release of a purchaser from their duty to make an offer to shareholders to sell their ordinary shares (securities issue that is convertible into ordinary shares) during a takeover	Compliant	This norm is not provided for by the Company's Articles of Association.
57	Presence in the Articles of Association or internal documents of the joint stock company of the requirement for the obligatory involvement of an independent appraiser in defining the share conversion ratio during re-organization	Compliant	According to p. 26.2 of Article 26 of the Company's Articles of Association in case the General Shareholders Meeting decides to re-organize the Company, an independent appraiser shall be involved to define the share conversion ratio.

Information Disclosure

№	CCC Article	Compliant/ Non-compliant	Note
58	An internal document approved by the Board of Directors that outlines rules and approaches of the joint stock company to information disclosure (Regulations on the Information Policy)	Non-compliant	The Regulations on the Information Policy were approved by the Company's Board of Directors on 28 February 2008 (Minutes #55).
59	Existence of internal documents of the joint stock company that require the disclosure of information about the purpose of the share issue, about persons intending to purchase shares to be issued, including a large shareholding and about whether executives of the joint stock company participate in purchases of the Company's shares to be issued	Compliant	This requirement is not provided for by the Company's Articles of Association or any other documents.
60	Existence of a list of information, documents and data in internal documents of the joint stock company which should be given to shareholders for making decisions on items submitted to the General Shareholders Meeting	Compliant	A list of information (materials) is defined by the Company's Board of Directors based on Articles 11 and 12 of the Company's Articles of Associations, p. 7 of the Regulations on the Information Policy and p. 4 of the Procedure for the Preparation and Holding of the General Shareholders Meeting.
61	A website of the joint stock company on the Internet that regularly discloses information on the joint stock company (on the website)	Compliant	http://www.fsk-ees.ru/
62	Presence in internal documents of the joint stock company of the requirement to disclose information about transactions of the joint stock company made with persons who according to the Articles of Association are among executives of the joint stock company, as well as about transactions of the joint stock company made with organizations in which executives of the joint stock company hold, directly or indirectly, 20 percent of the authorized capital of the joint stock company and above or which can be essentially influenced by said persons	Compliant	In accordance with p.5.2.8 of the Regulations on the Information Policy.
63	Presence in internal documents of the joint stock company the requirement to disclose information about all transactions which can influence the market price of the Company's shares	Compliant	In accordance with Items 5.1 and 5.2.10 of the Company's Regulations on the Information Policy.

№	CCC Article	Compliant/ Non-compliant	Note
64	An internal document approved by the Board of Directors on using essential information on the operations of the joint stock company, shares and other corporate securities and transactions with them which are not public and the disclosure of which could materially influence the market price of shares and other securities of the joint stock company	Compliant	The Regulations on Insider Information were approved by a resolution of the Board of Directors as of 6 October 2011 (Minutes #144).
	Control over Financial and Economic Activity		
65	Internal control procedures over the financial and economic activity of the joint stock company are approved by the Company's Board of Directors	Compliant	The current Regulation on the Company's Audit Commission has been approved by a decision of the AGM on 29.06.2012 (Minutes #12 as of 02.07.2012), while the current Regulation on the Company's internal control system has been approved by a decision of the Company's Board of Directors, dated 02.08.2012 (Minutes #170 as of 02.08.2012).
66	A special division of the joint stock company which enforces the execution of internal control procedures (supervision and auditing services)	Compliant	The Company's divisions responsible for the internal control procedures include the following: The Control and Audit Department, responsible for the selective control of financial, production and economic activities of the Company's divisions and of the executive body, and of the Company's subsidiaries and dependent companies. The Department is also responsible for control over compliance with the strategic development level and for the efficiency of the Company's information technologies. Other responsibilities include: identifying and mobilizing the Company's internal economic potential and profit generating reserves; the investigation of cases of abuse by legal and physical persons resulting in damage done to the Company's interests; and interactions with senior internal control bodies. The Internal Control Division responsible for developing and updating the Company's internal control system, taking into account changes in the scale of the Company's operations and governance structure. Other responsibilities include: the analysis of the organization of business processes in regard to the efficiency of control procedures applied, the optimization of the allocation of responsibilities among the Company's divisions, the exclusion of redundant/double functions and the identification and analysis of risks and the development of a risk matrix. The Technical Supervision and Audit Department is responsible for the technical audit of the Company's key production and economic activities, including the analysis of technical supervision results pertaining to the re-construction and technical re-equipment of the Company's facilities and newly constructed facilities. The analysis is performed by the technical supervision departments of corporate branches. Other responsibilities include: controlling the process of timely and proper investigation of disturbances, as well as a selective control of the efficiency of production and technical operations of the structural units of the Company's executive body and the Company's subsidiary and dependent companies, including the internal technical control system, assessing the compliance of the above with requirements.

№	Норма Кодекса корпоративного поведения	Соблюдение/несоблюдение нормы	Примечание
			The Investment Planning and Reporting Department is responsible for controlling compliance with the investment operations budget, controlling the implementation of the Company's investment program in regard to timely financing and achieving the control points of the priority investment projects. Other responsibilities include: controlling the grounds for the appreciation of the Company's investment program projects, by using independent expertise. The Reliability and Analysis Unit of the Production Control Department is responsible for controlling the validity of reporting information on the implementation of the Company's repair program, the quality assurance of maintenance and repair work and diagnostics for substation and power transmission line equipment. Other responsibilities include: controlling implementation terms for the overall quantity of maintenance and repair work and selective control over compliance with the Company's current Industrial Guidelines, as assigned by the Company's management team.
67	The presence in internal documents of a requirement by the Board of Directors of the joint stock company about defining the structure and composition of the supervisory and auditing services of the joint stock company	Compliant	The Company's Regulations on the Internal Control System (approved by a decision of the Company's Board of Directors, Minutes #170, dated 02.08.2012) sets a structure for the Company's internal control bodies with individual competencies and responsibilities. The structure consists not only of the Company's management and controlling bodies, such as the Board of Directors, the Chairman of the Management Board, the Audit Commission, responsible for defining the basic principles of the operation of the Company's internal control system, but also of specialized internal control departments intended to support and monitor the efficiency of the operation of the internal control system.
68	Absence in the supervisory and auditing services of persons who were found guilty of committing crimes in the area of economic activities or crimes against the government, interests of public service and the service of local government institutions, or persons who had administrative punishments applied to them for violations in the area of business activity or in the areas of finance, taxes, fiscal charges and the securities market	Compliant	There are no such persons in the Company's supervisory and auditing services.
69	Absence in the composition of the supervisory and auditing services of persons who are members of any executive body of the joint stock company, and persons who are participants, the General Director (the managing director), members of management bodies or employees of a legal entity that competes with the joint stock company.	Compliant	There are no such persons in the Company's supervisory and auditing services.
70	Presence in internal documents of the joint stock company of a timeframe for presenting documents and data to the supervisory and auditing services for estimating the financial and economic operations carried out, and the responsibility of officials and employees of the joint stock company for their failure to present documents and data within the specified timeframe	Compliant	Paragraph 7 of the Regulations on the Audit Commission.
71	Presence in the internal documents of the joint stock company of the supervisory and auditing services' duty to inform the Audit Committee about revealed infringements, and in case of the latter's absence, the presence of a duty to inform the Board of Directors of the joint stock company of said infringements	Compliant	According to p. 4 of the Regulations on the Audit Commission if any abuse of power by officials is revealed, as well as any misappropriations, embezzlement, shortages and illegal expenditures in cash and material assets, an intermediate statement shall be drawn up and the Board of Directors shall be informed of such occurrences immediately.

№	Норма Кодекса корпоративного поведения	Соблюдение/ несоблюдение нормы	Примечание
72	Presence in the Articles of Association of the joint stock company of the requirement for a preliminary estimation by the supervisory and auditing services of the feasibility of operations not included in the financial and economic plan of the joint stock company (non-standard operations)	Non-compliant	This requirement is not provided for by the Company's Articles of Association.
73	Presence in the internal documents of the joint stock company a coordinated procedure for non-standard operations with the Board of Directors	Non-compliant	This procedure is not laid out in the Company's internal documents.
74	An internal document approved by the Board of Directors that defines the Audit Commission's inspection procedure for the joint stock company's financial and economic activity	Compliant	The Regulations on the Audit Commission as approved by the resolution of JSC RAO UES of Russia's Board of Directors on 29.06.2012 (Minutes #12 as of 02.07.2012), the Regulations on the Company's Internal Control System as approved by the Company's Board of Directors on 02.08.2012 (Minutes #170, as of 02.08.2012).
75	The Audit Committee's evaluation of the Auditor's Report prior to its presentation to shareholders at the General Shareholders Meeting	Compliant	According to p.2.1.4. of p.2 of the Regulations on the Audit Committee approved by the Company's Board of Directors, the terms of reference for the Audit Committee includes preliminary assessment of book-keeping reports.
	Dividends		
76	An internal document approved by the Board of Directors and used by the Board of Directors as guidelines for approving recommendations on the dividend amount (Dividend Policy Regulations)	Compliant	The Company's Regulations on the Dividend Policy approved by a decision of Federal Grid Company's Board of Directors as of 16 December 2010 (Minutes #120).
77	Presence in the Dividend Policy Regulations on rules defining the minimum share of the joint stock company's net profit allocated to dividend payments, and conditions for the non-payment or partial payment of dividends on preferred shares, which have a dividend size outlined in the Articles of Association of the joint stock company.	Compliant	The procedure for the determination of the minimal share of the Company's net profit allocated to dividend payment is outlined in p. 4.3 of the Regulations on the Dividend Policy
78	Publication on information about the joint stock company's dividend policy and amendments to it in the periodic publication outlined by the Articles of Association of the joint stock company for publishing information about the General Shareholders Meeting, and publication of said data on the joint stock company's Internet website	Compliant	The Company's Regulations on its Dividend Policy are published on the Company's official website at http://www.fsk-ees.ru/investors_corporate_doc.html

Implementation of the assignments of the President and the Government of the Russian Federation

№	Assignment Issued By	Registration Details	Assignment Summary	Performance Status	Performance Result
1.	The President of the Russian Federation	Pr-3668 dated 06.12.2011	On undertaking measures to optimize property owned by State-owned joint stock companies	Federal Grid Company prepared the draft Non-Core Assets Management Program that establishes the criteria for attributing real estate property and shares of SDCs and other entities owned by the Company to non-core assets, as well as the order and formats for keeping the register of non-core assets, approaches to establishing value and basic rules for non-core asset disposal.	The Board of Directors of Federal Grid Company approved the Company's Non-Core Assets Management Program (Minutes #178 dated 16.11.2012).
2.	The President of the Russian Federation	Pr-3291 dated 03.11.2012	On implementing the principles of co-investing in Russian and international venture funds for joint stock companies partially or fully owned by the State	1. Federal Grid Company prepared and sent to Russia's Ministry of Economic Development a proposal for Federal Grid Company's investment in Russian and international venture funds; 2. Federal Grid Company submitted proposals on removing obstacles for the Company to invest in venture funds.	The Management Board of Federal Grid Company made a decision to recommend that the Company's Board of Directors make a resolution on the following issue (Minutes #1146/2 dated 21.02.2013): - To consider Federal Grid Company's participation in venture funds via co-investing its property rights for innovative technologies developed within the framework of the Company's R&D Program as expedient. A meeting of the Company's Board of Directors to consider this issue will be held in mid-April 2013.
3.	The President of the Russian Federation	Pr-3291 dated 03.11.2012	Joint stock companies partially or fully owned by the State with approved innovative development programs that are in compliance with the Commission's resolution shall publish in open sources passports of the above-mentioned programs and the lists of innovative projects and areas of R&D developments that will be implemented from 2011-2020.	The Company's Innovative Development Program till 2016 with an outlook till 2020 was approved by the Board of Directors of Federal Grid Company (Minutes #128 dated 07.04.2011).	The passport for the Company's Innovative Development Program till 2016 with an outlook till 2020 and the Prospect Innovative R&D Directions required for smart grid development were placed on the Company's web site (www.fsk-ees.ru) within the Innovative Development section (in Russian).

№ п/п	Assignment Issued By	Registration Details	Assignment Summary	Performance Status	Performance Result
4.	The President of the Russian Federation	Pr-1092 dated 27.04.2012	On selling core assets in economic sectors with a sufficient level of competition (for providing for the maximal involvement of small- and medium-sized companies in manufacturing appropriate products) by State corporations and entities for which more than 50% of shares are owned by the Russian Federation.	Federal Grid Company explored the issue and analyzed the practicality of core asset disposal in economic sectors with a sufficient level of competition (for providing for the maximal involvement of small- and medium-sized companies in manufacturing appropriate products).	The Board of Directors of Federal Grid Company made the following decision (Minutes #174 dated 20.09.2012): - due to the fact that electric energy transmission services are attributed to the activities of natural monopoly entities (according to the Federal Law #147-FZ "On Natural Monopolies" dated 17.08.1995), the disposal of the Company's core assets represented by electric grid facilities and other property used by the Company during its operations was recognized as inexpedient.
5.	The Government of the Russian Federation	VP-P13-9308 dated 28.12.2011 VP-P24-1269 dated 05.03.2012	On submitting full information about income, property and the property-related liabilities of joint stock companies' managers (including members of the Board of Directors/the Supervisory Board, their close relatives (spouse, of-age and underage children, parents and siblings) to the federal executive body responsible for the coordination and legal regulation of the companies' activities, as well as to Russia's Federal Tax Service and the Federal Financial Monitoring Service.	The Company collected information about income, property and property-related liabilities, of members of the Board of Directors and their close relatives (spouse, of-age and underage children, parents and siblings).	By 01.04.2012, documents that included information about income, property and property-related liabilities for members of the Board of Directors, their close relatives (spouse, of-age and underage children, parents and siblings) were submitted to the federal executive body responsible for the coordination and legal regulation of the companies' activities, as well as to Russia's Federal Tax Service and the Federal Financial Monitoring Service.
6.	The Government of the Russian Federation	ВП-П13-9308 от 28.12.2011	On providing for the transparency of operating and financial activities (including avoiding conflicts of interests and abuses of office), including providing for the mandatory disclosure of information about counterparties' owners (including beneficiaries, among these final beneficiaries) and submitting this information to Russia's Federal Tax Service, the Ministry of Energy and the Federal Financial Monitoring Service.	The Company collected information about existing and potential counterparties' owners (data about the owners and the owners of the entities, in case the owners were represented by entities), including beneficiaries (among these final beneficiaries), and about counterparties' executive bodies (hereinafter referred to as Information about owners). The Company developed an internal regulatory base, organized a process for the automated collection of data, the analysis of Information about owners and submitted it to authorized state organizations.	The Company checked Information about owners in respect to the fullness of disclosed information (up to providing data about individuals), the veracity of information about individuals and entities, conflicts of interests, and their connections and the abuse of office connected with potential persons taking posts in Federal Grid Company and its SDCs. Consolidated Information about owners is submitted to the authorized State organization(s) within the established time limit.

Management Discussion and Analysis (MD&A)

Overview of Federal Grid Company's Financial Condition as of 31 December 2012 and 2012 Operations

This Report contains an overview of the financial performance and operations and the financial performance of Federal Grid Company (hereinafter referred to as the "Company"). The Report should be reviewed in conjunction with the Company's 2012 financial statements prepared in accordance with corresponding Russian legislation (Russian Accounting Standards (RAS)), including a corresponding explanatory note.

1. General overview of the Company's operations

Since 2010, tariffs for electricity transmission over the UNEG by Federal Grid Company have been set using the RAB-regulation method, to upgrade the investment attractiveness of the energy sector.

As of 31 December 2012, the Company consisted of regional branches, including 8 Main Electric Grids (MES), 41 Backbone Electric Grid Transmission Line Companies (PMES) and one Bely Rast Specialized Production Base.

In 2011, the volume of power transmission services rendered by the Company amounted to RUR136,581.43 million.

The Company makes considerable investments in fixed assets to provide for the development and reliable operation of the UNEG. In 2012, expenditures on construction, re-construction and renovation of the Company's fixed assets amounted to RUR179,898.9 million (compared with RUR184.716 million in 2011).

The Company financed its 2012 investments from the following sources:

- Revenues generated by power transmission services – 34.4%;
- Borrowed funds, including federal budgetary finds for the current year – 34.4%;
- Funds generated by VAT returns – 14.7%;
- Other sources (including payments for technological connections) – 3.2%.

1.1. Main factors influencing the performance of Federal Grid Company

In 2012, the principal factors influencing the Company's performance include the following:

1. Postponement of the period for setting and revising tariffs from 1 January to 1 July of the next calendar year (Russian Federation Governmental Regulation #1178 dated 29.12.2011) and the establishment of rates for H1 2012 at the level of tariffs set for 2011 (FTS of Russia's Order #325/e-1 dated 6 December 2011);

2. Modification of the RAB-regulation methodology that means changing to determining a base of invested capital based on the value of assets that have been commissioned within the framework of the investment program. Starting from 1 July 2012, the increase in the average rate of network maintenance amounts to 11% (FTS of Russia's Order #114-e/2 dated 21.05.2012), with an average annual tariff growth amounting to 4% in 2012. The tariff will grow 9.4% from 07.01.2013 and 9.4% from 01.07.2014;

3. Successful implementation of the cost management program, which reduced the Company's operating costs;

4. A write-off of negative differences resulting from the mark-to-market revaluation of securities that are listed on the market (primarily JSC Inter RAO UES shares);

5. Accrual of provisions for the devaluation of financial investments (not subject to revaluation at market value) (bills owned by LLC Energo-Finans, equity investments in the shares of JSC Mobile GTES);

6. A negative balance of operations involving the establishment and recovery of the bad debt reserve (mainly due to revaluation, at current market value, of energy companies' shares which were on the balance of the Index of Energy of Federal Grid Company and accrued interest on LLC Energo-Finans' bills);

7. Reflection of the revaluation of fixed assets.

2. The Company's financial results

2.1. Key financial results

Revenues and expenses related to usual business operations	2012	2011	Change, RUR million	Change, %
Revenues from core operations,	138,836.49	138,136.62	699.87	0.51%
Including:				
Power transmission services	136,581.43	134,875.49	1,705.94	1.26%
Other operations	2,255.06	3,261.12	-1,006.06	-30.85%
Prime cost of core operations,	-106,617.78	-84,174.33	-22,443.45	26.66%
Including:				
Power transmission services	-105,606.53	-83,201.43	-22,405.10	26.93%
Other operations	-1,011.25	-972.90	-38.35	3.94%
Administrative costs	-9,855.05	-8,726.03	-1,129.02	12.94%
Sales profit	22,363.66	45,236.25	-22,872.59	-50.56%
Other income and expenses				
Interest receivable	4,198.54	3,971.45	227.09	5.72%
Interest payable	-	-	-	-
Income from participation in other organizations	181.40	264.86	-83.47	-31.51%
Other income	109,176.48	171,434.39	-62 257.91	-36.32%
Other expenses	-150,152.17	-209,462.53	59,310.36	-28.32%
Profit (loss) before taxation	**-14,232.10**	**11,444.41**	**-25,676.51**	**2.24 times**
Postponed tax assets	-62.49	46.16	-108.65	2.36 times
Postponed tax liabilities	-8,736.34	-5,544.81	-3,191.53	57.56%
Current profit tax	-1,470.68	-8,389.54	6,918.86	-82.47%
Other similar mandatory payments	-0.30	-3.37	3.07	-91.01%
Adjusted profit tax for the preceding periods	-	-21,21	-21,21	100%
Net profit (loss) for the period	**-24,501.92**	**-2,468.36**	**-22,033.56**	**8.92 times**
Adjusted net profit	**13,413.35**	**33,686.63**	**-20,273.28**	**-60.18%**

2.2. Revenues generated by power transmission services

	2012	2011	Change, RUR million	Change, %
Revenues generated by power transmission services	**136,581.43**	**134,875.49**	**1,705.94**	**1.26%**
Including:				
Payments for the maintenance of UNEG power facilities	125,671.68	120,993.70	4,677.98	3.87%
Payments for normative in-process losses in the UNEG	10,909.75	13,881.80	-2,972.05	-21.41%

An analysis of the 2011-2012 period demonstrates increased revenues generated by power transmission services.

Compared with 2011, revenues generated by power transmission services in 2012 grew RUR1.706 million, including:

— A RUR4,677.98 million increase in revenues related to power grid facility maintenance, mainly due to the growth in tariffs for power transmission through the UNEG starting from 01.01.2012;

— A RUR2, 972.05 million decline in revenues for the compensation of normative losses, due to a reduction in loss limits that are compensable to consumers, from 4.84% to 4.49%.

In 2012, revenues generated by the Company's core regulated operations (excluding revenues from technological connections) made up 98.38% of the Company's total revenues.

2.3. The prime cost of core operations

Cost element	2012	% of the total	2011	% of the total	Change, %
Depreciation of fixed assets	58,993.16	55%	39,784.23	47%	48%
Purchase of energy and capacity	11,662.11	11%	12,183.17	14%	-4%
Labor compensation costs and social expenses	18,070.83	17%	15,836.01	19%	14%
Repair and maintenance	5,446.32	5%	5,291.12	6%	3%
Costs related to the purchase of raw stuff and materials	2,702.35	3%	2,423.74	3%	11%
Costs related to property insurance	893.58	1%	848.04	1%	5%
Lease costs	1,189.54	1%	1,092.19	1%	9%
Costs related to security provisions	1,692.98	2%	1,527.49	2%	11%
Electric energy transit services	1,740.50	2%	1,329.47	2%	31%
Other costs	4,226.41	4%	3,858.87	5%	10%
Total prime cost	**106,617.78**	**100%**	**84,174.33**	**100%**	**27%**

2.3.1. Depreciation of fixed assets

Compared with 2011, depreciation charges grew 48% in 2012.

The 2012 growth in depreciation costs occurred due to accrued depreciation from new power grid facilities commissioned within the framework of implementing the Company's investment program and the revaluation of fixed assets.

2.3.2. Purchase of energy and capacity

In 2012, costs related to the purchase of energy and capacity fell 4% compared with the similar period in the preceding year. This was due to the optimization of power flows and the ongoing energy saving program, which enabled the actual percentage of losses in Federal Grid Company's networks to be reduced to 4.24% and resulted in a RUR521 million decline in the costs related to the purchase of electric energy and capacity to compensate for transmission losses, compared with 2011.

2.3.3. Labor compensation costs and social expenses

The 14% growth in labor compensation costs and social expenses occurred due to: (1) an increase in the number of employees employed to ensure the functioning of commissioned electric grid facilities and (2) the quarterly indexation of production employees' salaries, which are performed in accordance with the actual growth in the consumer price index, in accordance with Tariff Agreement adopted by the Company and the policy of maintaining employees' real income level and (3) an increase in insurance premiums due to legislative changes (increased regulatory framework from RUR463 thousand to RUR512 thousand and the establishment of insurance premiums at a rate of 10% of the payments in excess of the limit value of the framework).

2.3.4. Repair and maintenance

The 3% increase in repair and maintenance costs in 2012 compared with 2011 occurred due to inflationary factors, as adjusted by savings via procurement procedures.

2.3.5. Cost of raw stuff and materials

In 2012, costs related to the purchase of raw stuff and materials grew 11% compared with 2011, which occurred due to increased costs for raw stuff and materials, fuel for vehicles due to inflationary factors, and the cost of work clothing, because of the growth in production staff, including for newly commissioned electric grid facilities.

2.3.6. Property insurance costs

In 2012, property insurance costs increased 5% due to the expansion of the list of insured production equipment (due to commissioning), as well as insurance for assets under construction.

2.3.7. Lease costs

In 2012, lease costs increased 9% compared with 2011. This was primarily due to an increase in lease payments under the contract for utilizing electric grid facilities of JSC Yantarenergo, a growth in the property lease costs for commissioned wireless communication networks. Also, there was an increase in land lease fees due to tariff indexation by local authorities.

2.3.8. Costs related to security provisions

The 11% year-on-year growth in costs related to security provisions was caused by an increase in the number of protected facilities, including for newly commissioned ones, as part of the Company's large-scale investment program, upgrading the physical security of facilities, introducing the Integrated Automated Security Management System (IASMS) at the Company's power facilities and Unified Security Control Center (USCC) and by implementing a program to protect UNEG facilities against terrorism.

2.3.9. Expenditures on electric energy transit services

In 2012, expenditures on electric energy transit services grew 31% compared with 2011, which was due to increased power flow through foreign energy systems, as well as a significant 16% indexation of tariffs for electric energy transit through the UES grids of Kazakhstan.

2.3.10. Other costs

In 2012, other costs grew 10% as compared with 2011, due to conducting a power survey (power audit) of electric grid facilities in the reporting year within the framework of the energy saving and efficiency program, as well as due to measures to establish protective zones.

2.4. Administrative costs

Cost element	2012	% of total	2011	% of total	Change, %.
Labor compensation costs and social expenses	2,240.30	23%	2,269.88	26%	-1.3%
Insurance premiums	309.11	3%	181.12	2%	71%
Information services and software-related costs	1,250.34	13%	1,199.94	14%	4%
Depreciation of fixed and non-tangible assets	1,247.54	13%	993.70	11%	26%
Property tax	1,286.99	13%	795.40	9%	62%
General production services	764.90	8%	667.40	8%	15%
Tangible costs	392.18	4%	335.80	4%	17%
Lease costs	668.22	7%	543.80	6%	23%
Insurance costs	6.66	0.1%	6.30	0.1%	5.7%
Costs related to security provisions	52.13	0.5%	40.90	0.5%	27%
Telecommunication services	367.31	4%	303.30	3%	21%
Consultancy services	115.90	1%	302.50	3%	-62%
R&D costs	142.84	1%	201.90	2%	-29%
Other costs	1,010.63	10%	884.09	10%	14%
Total administrative costs	**9,855.05**	**100%**	**8,726.03**	**100%**	**13%**
Administrative costs excluding depreciation charges	**7,320.52**		**6,936.93**		**6%**

2.4.1. Labor compensation costs and social expenses

PLabor compensation costs fell 1.3% in 2012 compared with 2011 due to optimizing the number of managerial staff.

2.4.2 Insurance premiums

In 2012, insurance premiums grew 71% as compared with 2011 due to legislative changes (an increase in the regulatory framework for insurance premiums from RUR463 thousand to RUR512 thousand and the establishment of insurance premiums at the rate of 10% of the payments in excess of the limit value of the framework).

2.4.3. Information services and software-related costs

During the reporting year, costs related to information services grew 4% due to commissioning new information programs that provide control over the Company's obligations and their compliance with financing limits.

2.4.4. Depreciation of fixed and non-tangible assets

The 26% increase in depreciation costs was caused by fixed asset revaluation.

2.4.5. Property tax

The 62% increase in property tax (compared with 2011) was caused by commissioning new UNEG facilities and revaluing fixed assets (in accordance with the accounting policy, the cost item in question fully reflects property tax, including the tax imposed on the Company's production assets).

2.4.6. Production services

The 15% growth in costs related to production services was caused by an increase in transportation costs not related to the transport of goods, legal services, with a simultaneous reduction in audit services at the end of competitive procedures, as well as advertising costs, including participation in exhibitions and fairs.

2.4.7. Tangible costs

The 17% growth in tangible costs in 2012 (compared with 2011) was caused by an increase in operating costs to maintain the backup data processing center, as well as intercom and video-conferencing maintenance costs.

2.4.8. Lease costs

The 23% increase in lease costs in 2012 compared with 2011 was due to increased spending on counter-lease contracts for fiber-optic communications and the change in contractual relationships with the owner of the leased building (9 Bolshoy Nikolovorobinskiy Lane), in terms of increasing the number of leased areas and their sub-leasing to JSC ECMC UES.

2.4.9. Insurance costs

The 5.7% growth in insurance costs compared with 2011 was caused by increased costs of liability insurance, associated with increased personal responsibility for members of the Board of Directors, members of the Management Board, the Chief Accountant and officials of Federal Grid Company, due to the planned implementation of numerous strategic transactions.

2.4.10. Communication services

The 21% increase in communication costs in 2012 compared with 2011 was caused by indexing communication operators' tariffs and commissioning new satellite communication systems.

2.4.11. Consulting services

The 62% decrease in consulting services occurred due to a reduction in the number of consulting companies involved and the performance of necessary work in-house by corporate employees.

2.4.12. Research and development (R & D) costs

The 29% decrease in R&D costs in 2012 (compared with 2011) was caused by a one-time write-off of R&D in 2011 with a positive result, on which patents were not issued.

2.4.13. Other administrative costs

The 14% increase in other administrative costs in 2012 (compared with 2011) was primarily caused by an increase in costs related to medical insurance and non-State retirement insurance to upgrade employees' social protection.

The growth of administrative costs (excluding depreciation charges and property tax) at the end of 2012 amounted to 6% compared with 2011, which corresponds to the inflation rate.

2.5. Profits from core operations

The 50.5% decrease in profits from core operations in 2012 compared with 2011 was caused by maintaining the Company's revenues at the 2011 level (an increase of 0.51%), which was due to the postponement of tariff indexation for electricity transmission from 1 January to 1 July, with a simultaneous growth rate in prime cost and administrative costs primarily due to increased costs, associated with the ownership of property - depreciation charges and property tax.

2.6. Interest receivable and interest payable

Interest receivable is composed of income generated by debt financing and revenues generated by depositing free cash in bank accounts and deposits. In 2012, the amount of interest income increased 5.7% compared with 2011 as a result of measures aimed at upgrading the efficiency of the Company's current assets management, which generated additional revenue in the amount of RUR227 million compared with 2011.

Due to changes in the Company's accounting policy, interest costs have been capitalized and included in the cost of construction titles since 2010. This explains why interest payable is not reflected in the corresponding line of the report.

2.7. Other income

Description	2012	2011	Change, RUR million	Change, %
Discharge of bills	96,734.8	77,486.0	19,248.8	24.8%
Income from the withdrawal of financial investments	-	78,669.8	-78,669.8	-100.0%
Income from bad debt reserve recovery	9,378.1	8 424.1	954.0	11.3%
Income from financial investment reserve recovery	37.8	2,892.4	-2,854.6	-98.7%
Charges, fines, penalties	776.3	771.4	4.9	0.6%
Previous years' earnings revealed in the reporting year	769.4	110.0	659.4	599.2%
Reserve recovery from a decrease in software licensing costs	-	661.2	-661.2	-100.0%
Revenues in the form of the cost of material assets, which were derived from the liquidation of fixed assets	563.3	410.9	152.4	37.1%
Extraordinary income from insured events	96.5	986.5	-890.0	-90.2%
Income from the revaluation of fixed assets	414.3	679.7	-265.4	-39.0%
Income from the realization of material assets	222.7	156.2	66.6	42.6%
Other income	183.28	186.19	-3.1	-1.7%
Total other income	**109,176.48**	**171,434.39**	**-62,257.9**	**-36.3%**

In 2012, the Company's other income decreased 36.3% compared with 2011, mainly due to the fact that the sale/exchange of generating companies' shares for shares of JSC Inter RAO UES was reflected in 2011 operations.

2.8. Other costs

Description	2012	2011	Change, RUR million	Change, %
Costs associated with the withdrawal of financial investments	-	79,186.7	-79,186.7	-100%
Discharge of bills	96,734.8	77,501.5	19,233.3	25%
Bad debt reserves	19,355.3	20,151.3	-796.0	-4%
Negative difference from the mark-to-market revaluation of shares	17,031.5	24,822.9	-7 791.4	-31%
Reserve for the devaluation of financial investments	9,564.2	1,590.9	7,973.4	501%
Costs associated with the revaluation of fixed assets	1,794.5	2,247.3	-452.8	-20%
Write-off of fixed assets and construction in progress	1,735.4	698.1	1 037.3	2.4 times
Losses associated with emergency conditions	864.4	94.2	770.2	9 times
Previous years' earnings revealed in the reporting year	734.1	125.9	608.2	5.8 times
Costs of securities issue and servicing	308.3	221.4	86.8	39%
Reserve for decreasing the cost of material assets	208.9	146.7	62.2	42%
Depreciated cost of write-offs and construction in progress and the cost of writing-off	33.6	26.4	7.1	27%
Other costs	1,787.17	2,649.23	-862.1	-33%
Total other costs	**150,152.17**	**209,462.53**	**-59,310.4**	**-28%**

In 2012, the Company's other costs decreased 28% compared with 2011 mainly due to the fact that the transaction involving the sale/exchange of generating companies' shares for shares of JSC Inter RAO UES were reflected in 2011, as well as the revaluation difference for the Company's financial investments, as reflected at the end of the reporting periods.

2.9. Income/ expense associated with the withdrawal of financial investments

In 2012, there was no financial results from the re-payment of third party bills (in 2011, expenses in the consolidated expression amounted to RUR516.8 million, mainly due to the fact that 2011 reflected a transaction involving the exchange of generating companies' shares for shares of JSC Inter RAO UES).

2.10. Revaluation of financial investments

In 2012, the Company reflected a negative difference from the mark-to-market revaluation of shares. The negative difference amounted to RUR17,031.5 million. This was mainly due to the revaluation of OJSC Inter RAO UES shares, which were on the Company's balance at market value.

In addition, in 2012, the Company undertook measures to establish/recover a reserve for the devaluation of financial investments (not subject to revaluation at market value). The balance was RUR9,526.4 million (mostly on LLC Energo-Finans' bills and equity investments in shares of JSC Mobile GTES).

2.11. Provisions for the impairment of accounts receivable

BIn 2012, based on an evaluation of accounts receivable and the probability that these accounts would be re-paid, the Company established a bad debt reserve in the amount of RUR19.355 million and also recovered a reserve in the amount of RUR9.378 million, which had been established in 2011. A negative financial result from the above-mentioned operations amounted to RUR9.977 million, including:

The balance of the establishment and the recovery of the reserve for bills owned by LLC Index of Energy of Federal Grid Company, which amounted to (+) RUR6.904 million;

A reserve for interest on bills owned by LLC Energo-Finans in the amount of (+) RUR4.621 million was established;

The balance of the establishment and recovery of the reserves mainly for the service contracts for electricity transmission through the UNEG, which amounted to (-) RUR1.548 million.

In 2011, the financial result from the recovery and establishment of bad debt reserves amounted to RUR11,727.19 million (the recovered reserve was RUR8,424.10 million, whereas the established reserve totaled RUR20,151.29 million).

2.12. Current profit tax

Compared with the previous year, in 2012, total profit tax fell 82.5% to amount to RUR1,470.68 million. The change in profit tax was caused by an increase in the value of depreciation charges, which are deductible in tax accounting, due to the large inputs of power grid facilities in fixed assets.

2.13. Net profit (loss) in the reporting period

The Company's FY 2012 loss amounted to RUR24,501.9 million (whereas, the 2011 loss was RUR2,468.4 million). The Company's loss occurred due to the following factors:

— A write-off of negative difference resulting from the revaluation of securities, listed on the market, at market value (mostly JSC Inter RAO UES) in the amount of RUR17,031.5 million;

— A negative balance of operations involving the establishment and recovery of reserves for the devaluation of financial investment (not subject to revaluation at the market value), which amounted to RUR9,526.4 million (mostly on bills owned by LLC Energo-Finans and equity investments in the shares of JSC Mobile GTES);

— A negative balance of operations involving the establishment and recovery of bad debt reserves in the amount of RUR9,977.2 million (mainly due to the revaluation of energy companies' shares which were on the balance of the Index of Energy of Federal Grid Company and interest on LLC Energo-Finans' bills).

3. The Company's net assets

According to accounting report data, in 2012, the value of Federal Grid Company's net assets decreased RUR3,923.7 million compared with the similar period in 2011 and by RUR2,895.6 million, according to an evaluation based on assumptions.

	2011		2012	
Index	Nominal*	Taking into account contributions to authorized capital**	Nominal*	Taking into account contributions to authorized capital**
Value of net assets, RUR million	853,801.14	856,020,4	849,877.49	853,124.79

*Evaluation based on data from the accounting reports;

** In 2011 and 2012, the authorized capital of Federal Grid Company increased via the issue of additional shares. This led to the inclusion of running debts to founding members in regard to contributions to the authorized capital into accounts payable reflected in accounting reports among other short-term liabilities. Once the report on the issue of additional shares is registered with the Russian Federal Financial Markets Services, the debt in question will be included in the Company's authorized capital. Evaluation of the value of net assets is specified taking into account the inclusion of debt in regard to contributions to authorized capital in the Company's own capital. Debt amounted to RUR2,219.2 million in 2011 and RUR3,247.3 million in 2012.

4. Cash flow

4.1. General information on the Company's cash flow generated by core, investment and financial operations

On 31 December 2012, the Company's total cash was RUR17,527.6 million (compared with RUR17,247.7 million on 31 December 2011).

The receipts and expenses analysis below was based on management accounting of corporate cash flow, taking into account mutually exclusive turnovers on deposits and dissolved contracts for electric energy transmission services.

In 2012, the Company physically received cash in the amount of RUR313.794 million, which is RUR20.246 million less than 2011. Compared with 2011, actual payments effected by the Company decreased RUR14.523 million to stand at RUR313.513 million.

The table below contains information on the Company's cash flows associated with core, investment and financial operations during the corresponding periods.

	Total		For type of activity					
			Business operations		Investments		Financing	
Indices	2012	2011	2012	2011	2012	2011	2012	2011
Receipts	313,794	334,040	167,696	169,738	61,475	82,752	84,623	81,551
Payments	313,513	328,036	67,220	70,544	234,639	246,493	11,654	10,999
Balance	281	6,004	100,476	99,194	-173,164	-163,741	72,969	70,552

The financing of investment programs for other power grid facility owners (based on contractor agreements) in 2012 amounted to RUR363 million, expenses for the purchase of fixed assets for production needs amounted to RUR852 million, whereas expenses for the purchase of financial investments during the year to deposit temporarily free cash amounted to RUR52.009 million. Dividends were not paid out for the year.

4.2. Cash from running operations

During FY 2012, cash received from running operations decreased RUR2.042 million (-1.2%) compared with the preceding year.

The decrease was mainly due to a RUR2,855 million decline in refunds from previously paid taxes (VAT) in 2012 compared with 2011, as well as a cutback in the amounts paid by consumers for corporate services and factors presented in the Section entitled, "Receipts from power transmission services".

In 2012, the amount of cash spent to finance running operations decreased RUR3.324 million (-4.7%) compared with 2011. This occurred due to a reduction in profit tax payments by RUR8.008 million, a decline in the payment for electric energy to cover losses for its transmission by RUR1.016 million and an increase in the payments for operating expenses by RUR5.700 million, including property tax.

4.3. Cash used in investment operations

Cash received from investment operations decreased RUR21.277 million in 2012 compared with 2011, due to a decline in receipts associated with the withdrawal of short-term financial investments (bills).

Compared with 2011, cash payments associated with investment operations decreased RUR11.854 million, including RUR7.266 million to finance the Company's investment budget (including RUR4,817.4 million to finance the investment program). The main directions of financing and the financing sources for the investment program are presented in the "Investments" section.

Also in 2011, 2010 dividends in the amount of RUR2.578 million were paid out to Company shareholders. In 2011, the Company had a loss. Dividends were not paid out in 2012.

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

CONTENTS

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

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

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**

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

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**

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: Share capital	Share premium	Treasury shares	Reserves	Accumulated 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: Share capital	Share premium	Treasury shares	Reserves	Accumulated deficit	Total	Non-controlling interest	Total equity
As at 1 January 2011		**616,781**	**10,501**	**(6,864)**	**361,267**	**(108,525)**	**873,160**	**944**	**874,104**
Comprehensive income for the year									
Profit / (loss) for the year		-	-	-	-	49,139	**49,139**	(151)	**48,988**
Other comprehensive income, net of related income tax									
Change in revaluation reserve for property, plant and equipment	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 transmission 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 transmission 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:		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
	property, plant and equipment (Note 6)	available-for-sale investments (Note 9)			
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 comprehensive income	1 January 2011
Deferred income tax liabilities				
Property, plant and equipment	73,106	3,667	-	69,439
Investments in associates	71	1	-	70
Available-for-sale investments	10,059	10,499	(946)	506
Accounts receivable and prepayments	-	(241)	-	241
Non-current assets held for sale	-	(8,139)	(7,426)	15,565
Other deferred tax liabilities	63	31	-	32
Total deferred income tax liabilities	**83,299**	**5,818**	**(8,372)**	**85,853**
Deferred income tax assets				
Property, plant and equipment	(1,521)	29	-	(1,550)
Intangible assets	(519)	(388)	-	(131)
Long-term promissory notes	(1,496)	76	-	(1,572)
Accounts receivable and prepayments	(267)	561	-	(828)
Retirement benefit obligation	(391)	(1)	-	(390)
Current and non-current debt	(170)	(170)	-	-
Accounts payable and accruals	(179)	56	-	(235)
Other deferred tax assets	(164)	30	-	(194)
Tax losses	(2,414)	(781)	-	(1,633)
Unrecognised deferred tax assets	4,394	57	-	4,337
Total deferred income tax assets	**(2,727)**	**(531)**	**-**	**(2,196)**
Deferred income tax liabilities, net	**80,572**	**5,287**	**(8,372)**	**83,657**

(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.

Federal Grid Company of Unified Energy System

London Stock Exchange

Joint Stock Company
"Federal Grid Company of Unified Energy System"

ANNUAL FINANCIAL REPORT FOR 2012 In accordance with UK Disclosure and Transparency Rules

April 2013
Moscow

Key 2012 Results

Key production indicators

	2010	2011	2012
Number of substations*	805	854	891
Total transmission grid length, thousand km **	121.7	124.6	131.6
Electricity transmitted from the the UNEG to distribution grid companies, direct private consumers on the wholesale energy market, and independent power industry JSCs (million kWh)	470,648.072	484,663.552	498,287.684
Electricity transmitted from the the UNEG to neighboring countries (million kW)	15,716.33	19,284.808	15,768.826
Declared capacity (MW)	91,179	90,937	90,492
Total actual electricity losses (million kWh)	22,526	22,553	21,946

* Taking into account rented sites as well as switchgears and units at substations of other owners.

**Taking into account rented high voltage transmission lines.

Key financial indicators (RUR million)

	2010*	2011	2012
Revenues	113,330	139,571	140,413
Adjusted EBITDA**	67,717	83,760	82,096
Adjusted operating profit **	29,941	46,614	33,520
Adjusted profit for the period **	27,910	38,241	29,956
Net debt **	(3,838)	85,232	168,002
Capitalisation	452,717	351,163	253,905

* Based on comparative information presented in the 2011 audited consolidated financial statements of the Company

** Calculations are presented in the «Financial results» section of this Report

About the Company

Federal Grid Company was founded in 2002 during the reform of the Russian power industry. The main directions of the Company's activities are the transmission of electric energy through main electric grids and technological connection. Our Company is included in the list of strategically important companies and has a status of natural monopoly.

During its 10 year history, the Company has become the largest power industry company in Russia in terms of market capitalization and is one of Russia's leading "blue chips" on the Russian stock market.

The Company employs more than 25,000 individuals, which ensures the sustainable operation of more than 131 thousand kilometers of electric energy transmission lines and 891 substations.

As of 31 December 2012, the Company has 51 regional branches, including:

— 8 branches – Main Power Transmission Lines (MES);

— 41 branches – Main Power Transmission Line Companies (PMES);

— 1 branch – Special Production Plant Bely Rast;

— 1 branch – Center of Technical Supervision.

Detailed information about the Company's structure and history can be found at the official website in the section About Us / About company.

Corporate Governance

Federal Grid Company observes all corporate governance principles focused on long-term goals, ensuring the transparency of its activities, environmental protection, labor safety and the social protection of its employees.

The Company's supreme management body is the General Meeting of Shareholders. The Board of Directors determines the strategy of the Company's development and also supervises the activities of the Management Board. The Management Board is entrusted with operational management of the Company.

Committees are formed under the Board of Directors, the activities of which are aimed at upgrading the effectiveness and quality of work of the Board of Directors.

Current activities of Federal Grid Company are managed by the Management Board, which is headed by the Chairman. The Management Board is accountable to the General Meeting of Shareholders and to the Board of Directors.

The Chairman of the Management Board is the sole executive management body.

The Company has an effective control system. The external control system, introduced to protect the interests of shareholders, is represented by an independent auditor and the Audit Commission.

The internal control system includes both audit and control divisions.

We have developed and implemented numerous normative documents that regulate corporate governance principles and procedures. Particularly, in 2012, our Company adopted a new Corporate Governance Code, which reflects provisions that significantly improve the Company's corporate governance quality.

Detailed information on the Company's corporate governance is available at the official website in the section About Us / Corporate Governance.

Share Capital

As of 31 December 2012, the share capital of Federal Grid Company amounted to 630,193,329,370 rubles divided into 1,260,386,658,740 ordinary shares with a nominal value of 50 kopecks each.

As of 31 December 2012, the number of authorised shares amounted to 1,346,805,823,831 ordinary shares with a nominal value of 50 kopecks each and a total nominal value of 673,402,911,915.5 rubles. Authorised ordinary shares have the same rights as outstanding ordinary shares.

No preferred shares have been issued.

In November 2012, the Company's Board of Directors adopted a resolution to increase the Company's share capital by a placement of additional ordinary shares with the total value of 4,082,034,991.5 rubles via open subscription. On 11 March 2013, an additional ordinary share issue was completed with a price of 50 kopecks per share. During the additional share issue, 6,754,357,256 shares (82.7% of the total number of securities from the additional issue subject to placement) were placed. As a result of the placement, the Company received 3,250 million rubles in cash and other assets at the cost of 127 million rubles. The main participant in the additional share issue was the Russian Federation, which invested in the Company's share capital in the amount of 3,247 million rubles.

As of 31 December 2012, 79.55% of the Company's shares were owned by the Government of the Russian Federation, represented by the Federal Agency for State Property Management;

18.31% of shares were owned by legal entities; and 2.14% were owned by individuals.

Market quotations for the Company's shares

In 2012, shares of the power industry sector performed significantly worse than the market as a whole, with the industry indicator MicexPWR decreasing by 16.8% during the reporting period. The negative dynamics with the indicator outpacing the market as a whole is related to continuing regulatory pressure and the uncertainty of development prospects for the power industry sector. The Company's shares were subject to fluctuation during the year due to continuing regulatory uncertainty and concluded the year with a significant decline in quoted prices – 28.5% for the year.

The price of Federal Grid Company's shares on the stock exchange as of 28 December 2012 amounted to 0.20104 rubles, which is 19% lower than the consensus analyst forecast, which indicates the growth potential for the Company's shares.

Detailed information on the Company's shares is available at the official website in the section Investors / Share Information.

Depository receipts program

On 30 June 2008, Federal Grid Company launched a Depository Receipts Program (GDR), not subject to listing procedures (Regulation S and Rule 144A). In 2011, the Company performed a technical listing of depository receipts on the primary exchange of the London Stock Exchange, where trading of Federal Grid Company's GDRs was launched on 28 March 2011.

As of 31 December 2012, the volume of the depository receipts program amounted to 1.4 million receipts, or 0.058% of the Company's charter capital. The maximum number of GDR's which the Company can issue stands at 2,511,896,256.

Detailed information on trading of the Company's depository receipts is available at the official website in the section Investors / Share Information / GDR Program.

Current information on the GDR program can also be accessed at the official website of the London Stock Exchange at www.londonstockexchange.com, under Federal Grid Company ticker symbol – FEES.

Dividend policy

In accordance with Russian legislation and the Charter of Federal Grid Company, the source for dividend payments is the Company's net profit, which is determined on the basis of the Company's annual statutory accounts.

According to 2012 published statutory financial statements of Federal Grid Company, the Company's net loss for the reporting year amounted to 24,502 million rubles. The main factors behind this loss were negative results from the revaluation of financial investments into stock with market quotations, accrual of allowance for doubtful debtors and impairment of promissory notes.

A resolution on the payment of dividends for 2012 will be adopted by the Company's Annual General Meeting of Shareholders in 2013. The shareholders have proposed to adopt a resolution not to pay dividends on the Company's ordinary shares for 2012.

Detailed information on dividends paid by the Company is available at the official website in the section Investors / Dividends.

Operating Activities

Electric energy transmission services

The principal activity of Federal Grid Company is the transmission of electricity via the Russian Unified National Electric Grid (the "UNEG"). Payments for this type of services are the main financing source for the revenue side of the Company's budget.

According to Russian legislation, electric energy transmission services through the the UNEG are monopoly-type activities and are regulated by the Russian Government. The price for electric energy transmission services is determined via respective tariffs set by the Russian Federal Tariff Service, taking into account normative technological losses of energy during the UNEG transmission for the respective subject of the Russian Federation, as adopted by the Russian Ministry of Energy.

Since 2010, within the framework of measures to upgrade investor attractiveness for the power industry, tariffs for Federal Grid Company on services related to the transmission of electric energy via the the UNEG are set based on the method of return on invested capital (RAB regulation). The change in method ensured a significant increase in the tariff growth rate.

Over four years, the volume of electric energy transmission services provided by the Company increased more than 100%, reaching 136,558,888 thousand rubles in 2012, according to the Company's IFRS consolidated financial statements.

The number of our customers constantly increases. In 2012, the number of consumers for electric energy transmission services provided by the Company amounted to 207 organisations (having connections to the the UNEG).

Detailed information on electric energy transmission services, provided by the Company, is available at the official website in the section Operations / Energy transmission.

Technological connection services

Technological connections are a complex service that provides for the actual connection of energy receiving devices (power units) to electric grid system objects. We provide technological connection services to new consumers as well as to existing customers, who need to increase power consumption.

The main consumers of technological connection services include:

— Large businesses (the oil and metallurgical industry, the production of construction materials, etc.);

— Construction and reconstruction of complex immovable property objects;

— Distribution grid companies.

— In 2012, the Company concluded 376 agreements on the provision of technological connection services; the overall volume of maximum capacity under the agreements amounted to 2,78 GW.

Detailed information on technological connection services provided by the Company is available at the official website in the section Operations / Technological connection.

Development Outlook for the Company

Investment

On 31 October 2012, the Russian Ministry of Energy adopted the Company's 2013-2017 investment program. The overall volume of investment program financing for 2013-2017 will amount to more than 775.5 billion rubles.

Tasks of Federal Grid Company's investment program:

— Renewal of the Company's grid assets;

— Implementation of projects in the field of electric grid construction that have State importance (APEC, ESPO, Olympics-2014 in Sochi, the Skolkovo Innovation Center, increased energy supply reliability to Moscow, St. Petersburg, etc.);

— Fulfillment of agreements concluded with regional administrations for electricity supply to consumers;

— Capacity output for commissioned power units at NPPs, HPPs and TPPs;

— Implementation of innovative projects and energy efficiency programs;

— Creation of technological infrastructure for the functioning of the competitive electricity and capacity market.

Investment in the UNEG development has significant State importance; hence, part of the program is financed from federal budgetary funds. Other program financing sources include: Company's own funds, funds received from the additional share issue, funds received from payments for technological connection, bond issues and loans.

Within the framework of implementing the Company's 2013-2017 investment program, the Company plans to put into operation 66,869.86 MVA of transformer capacity and 16,984.65 km of electricity transmission lines.

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.

Disclaimer

This Annual Financial Report has been prepared for shareholders of Joint Stock Company "Federal Grid Company of Unified Energy System" (the Company) as a body and for no other persons. The Company, its directors, employees, agents or advisers do not accept responsibility for any other person to whom this document is shown or into whose hands it may reach and any such responsibility or liability is expressly disclaimed against.

By their very nature, statements concerning risks and uncertainties that the Company faces in this Annual Financial Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those that are anticipated. The forward-looking statements contained in this Annual Financial Report reflect knowledge and information that were available at the date of preparing this Annual Financial Report and the Company undertakes no obligation to update these forward-looking statements. Further, nothing in this Annual Report should be construed as a profit forecast".

Responsibility Statement

I hereby confirm that to the best of my knowledge:

(a) the consolidated financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair value of the assets, liabilities, financial position and profit or loss of Federal Grid Company UES Group, and the undertakings included in the consolidation taken as a whole (the "Group"); and

(b) the management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that are faced.

Andrey Kazachenkov,

First Deputy Chairman of the Management Board,

Member of the Management Board

23 April 2013

INFORMATION ON TRANSACTIONS PERFORMED BY JSC FEDERAL GRID COMPANY IN 2012, RECOGNIZED BY RUSSIAN FEDERATION LAWS AS INTERESTED PARTY TRANSACTIONS, AND WHICH ARE SUBJECT TO THE APPROVAL OF THE COMPANY'S AUTHORIZED MANAGEMENT BODY:

1. The approval of the Agreement on Process Information Exchange concluded by and between JSC Federal Grid Company and JSC RusHydro. The Agreement contains no monetary obligations and does not stipulate the transfer of any property (property rights) (Minutes #151 of the Company's Board of Directors, dated 27.01.2012);

2. The approval of the Agreement on the termination concluded by and between JSC Federal Grid Company and JSC Kubanenergo and terminating the lease of locations for the installation of electric energy metering equipment and devices entitled AIMS CMEE of the external perimeter and internal generation of JSC Kubanenergo, dated 21.04.2008, #233. The price of the Agreement is not determined, based on the nature of the transaction (Minutes #156 of the Company's Board of Directors, dated 23.03.2012);

3. The approval of Additional Agreement #9 to the Construction Customer Agreement concluded by and between JSC Federal Grid Company and JSC CIUS UES, dated 01.04.2008, #C/01. The price of the Additional Agreement, taking into account the fixed and variable parts, should not exceed RUR2 732 000 000 (two billion, seven hundred and thirty-two million), plus VAT (18%), in accordance with Russian Federation laws, thus totaling RUR491 760 000 (four hundred and ninety-one million, seven hundred and sixty thousand) (Minutes #160 of the Company's Board of Directors, dated.05.2012);

4. The approval of the Agreement for the lease of non-residential premises, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The lease payment per the Agreement amounts to RUR113 591 (one hundred and thirteen thousand, five hundred and ninety-one) and 72 kopecks (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

5. The approval of the Agreement for the lease of non-residential premises, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The lease payment per the Agreement amounts to RUR13 219 866 (thirteen million, two hundred and nineteen thousand, eight hundred and sixty-six), including VAT (18%) in the amount of RUR2 016 589 (two million, sixteen thousand, five hundred and eighty-nine) and 74 kopecks (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

6. The approval of the additional agreements to the Agreement on the Use of Organizational Standards, dated 23 May 2011. Due to the fact that the conclusion of additional agreements to the Agreement on the Use of Organizational Standards as of 23.05.2011 does not and cannot involve any monetary obligations, and stipulates no transfer of property (property rights), the price of additional agreements #1 and #2 is not determined (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

7. The approval of the services agreement pertaining to accessing the electronic document flow system of the Corporate Information System of the Electronic Signature Verification Center, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The price of the Agreement is determined based on the volume of services pertaining to the manufacture of a key. The price amounts to RUR5 849 (five thousand, eight hundred and forty-nine) and 35 kopecks (including VAT) (Minutes # 160 of the Company's Board of Directors, dated 11.05.2012);

8. The approval of the Agreement on the transfer and safekeeping of Information that makes up a trade secret for JSC Federal Grid Company, concluded by and between JSC Federal Grid Company and JSC CIUS UES. Due to the fact that the agreement contains no monetary obligations and stipulates no transfer of property (property rights), the price of the Agreement between JSC Federal Grid Company and JSC CIUS UES described above is not determined (Minutes #160 of the Company's Board of Directors, dated 11.05.2012);

9. The approval of the Liability Insurance Agreement pertaining to insuring the liability of members of the Board of Directors, members of the Management Board and the Chief Accountant of JSC Federal Grid Company. The insurance premium per the Agreement does not exceed RUR15 000 000 (fifteen million) (VAT exempt) (Minutes #162 of the Company's Board of Directors, dated 25.05.2012);

10. The approval of additional agreement #10 to the Construction Customer Agreement concluded by and between JSC Federal Grid Company and JSC CIUS UES, dated 01.04.2008, #C/01. The price of the additional agreement taking into account the fixed and variable parts should not exceed RUR2 930 000 000 (two billion, nine hundred and thirty million), plus VAT (18%), in accordance with Russian Federation laws, thus amounting to RUR527 400 000 (five hundred and twenty-seven million, four hundred thousand) (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

11. The approval of the additional agreement to Agreement #20/10 "Life tests and the adaptation of the high temperature super-conductor of 200m long cable lines and a cryo-system for the pilot industrial operation at the 110 kV Dynamo SS", concluded by and between JSC Federal Grid Company and JSC ENIN. The additional agreement makes no changes in the price of the Agreement (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

12. The approval of the conclusion of the Agreement of Intent by and between JSC Federal Grid Company and JSC DVEUK to consolidate electric power facilities on Russky Island. Due to the nature of the transaction, the price of the Agreement between JSC Federal Grid Company and JSC DVEUK is not set (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

13. The approval of the agreement for operational servicing, repair, maintenance and diagnostic inspection of power grid facilities, concluded by and between JSC Federal Grid Company and JSC DVEUK. The price of the Agreement amounts to RUR3 182 763 (three million, one hundred and eighty-two thousand, seven hundred and sixty-three) and 28 kopecks, including VAT (Minutes #163 of the Company's Board of Directors, dated 07.06.2012);

14. The approval of the agreement for the lease of real estate property concluded by and between JSC Federal Grid Company and JSC CIUS UES. The price of the agreement for the entire duration of the lease of real estate property concluded between JSC Federal Grid Company and JSC CIUS UES amounts to RUR8 910 036 (eight million, nine hundred and ten thousand and thirty-six) and 41 kopecks, including VAT (Minutes #166 of the Company's Board of Directors, dated 28.06.2012);

15. On the approval of the agreement for the lease of real estate property concluded by and between JSC Federal Grid Company and JSC CIUS UES. The price of the agreement for the entire duration of the lease of real estate property amounts to RUR8 910 036 (eight million, nine hundred and ten thousand, thirty-six) and 41 kopecks (Minutes #166 of the Company's Board of Directors, dated 02.07.2012);

16. On the approval of the agreement on the transfer of authorities of a sole executive body of the Joint Stock Company Inter-regional Distribution Grid Holding, concluded by and between JSC IDGC Holding and JSC Federal Grid Company. The price of the Agreement is equal to remuneration to the Management Organization, as calculated in accordance with the procedure set by the Agreement. Till the Board of Directors approves the KPI system and the procedure for setting remuneration for the Management Organization, remuneration to the Management Organization amounts to RUR3 300 000 (three million, and three hundred thousand) per month (Minutes #168 of the Company's Board of Directors, dated 09.07.2012);

17. On the approval of Additional Agreement #3 to the Agreement on the Use of Organizational Standards, dated 23 May 2011. The transaction contains no monetary obligations, therefore no price is determined (Minutes #171 of the Company's Board of Directors, dated 24.08.2012);

18. On the approval of the conclusion of the agreement between Kovalchuk Boris Yurievich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

19. On the approval of the conclusion of the agreement between Kracvhenko Vyacheslav Mikhailovich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

20. On the approval of the conclusion of the agreement between Rashevsky Vladimir Valerievich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

21. On the approval of the conclusion of the agreement between Titova Elena Borisovna, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

22. On the approval of the conclusion of the agreement between Scherbovich Ilya Viktorovich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

23. On the approval of the conclusion of the agreement between Ayuev Boris Ilyich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

23. On the approval of the conclusion of the agreement between Ayuev Boris Ilyich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

24. On the approval of the conclusion of the agreement between Malyshev Andrey Borisovich, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

25. On the approval of the conclusion of the agreement between Ernesto Ferlenghi, a member of the Company's Board of Directors, and the Company. The agreement is intended to regulate the relationships between the Company and a member of the Company's Board of Directors, stipulating that the amount, the procedure and the conditions for paying remuneration and cost compensation (the price of the agreement specified in this decision) paid to members of the Board of Directors of JSC Federal Grid Company (hereinafter referred to as the Company) in accordance with p.2 of Article 64 of the Russian Federal Law "On Joint Stock Companies" is determined by a decision of the General Shareholders Meeting (Minutes #172 of the Company's Board of Directors, dated 11.09.2012);

26. On the approval of Additional Agreement #1 to the agreement on the transfer of the authorities of a sole executive body of Joint Stock Company Inter-regional Distribution Companies Holding #1007, dated 10.07.2012. The price of the Additional Agreement is equal to the price of remuneration due to the Management Organization, said remuneration calculated in accordance with Appendix #1 to the Additional Agreement, and the Procedure for the Calculation of Remuneration and Payment for the Services of the Management Organization (Appendix #1 to the Minutes). The amount of remuneration due to the Management Organization calculated and paid in accordance with the Agreement shall not comprise 2 (two) or more percent of the Company's net book value on the last reporting date prior to the conclusion of the Agreement (Minutes #173 of the Company's Board of Directors, dated 17.09.2012);

27. On the approval of the agreement for the sub-lease of real-estate property, concluded by and between JSC Federal Grid Company and JSC CIUS UES. The lease payment set by the Parties in the amount of RUR6 179 587 (six million, one hundred and seventy-nine thousand, five hundred and eighty-seven) and 53 kopecks monthly for the fixed part, in accordance with Appendix #2 to the Sub-lease Agreement, plus VAT in the amount of RUR1 112 325 (one million, one hundred and twelve thousand, three hundred and twenty-five) and 75 kopecks. The variable part of the lease payment shall be determined on the basis of invoices presented by utility services to the Lessee for services pertaining to the functioning and maintenance of the building containing non-residential premises transferred to the sub-lease per the Agreement (Minutes #177 of the Company's Board of Directors, dated 09.11.2012);

28. On the approval of the agreement pertaining to the provision of special expert assessment services, concluded by and between JSC Federal Grid Company and JSC Inter RAO UES. The price of the Agreement amounts to RUR50 000 (fifty thousand), including VAT (18%) in the amount of RUR7 627 (seven thousand, six hundred and twenty-seven) and 12 kopecks (Minutes #177 of the Company's Board of Directors, dated 09.11.2012);

29. On the approval of the agreement pertaining to the provision of special expert assessment services, concluded by and between JSC Federal Grid Company and the Market Council Non-Commercial Partnership. The price of the Agreement amounts to RUR50 000 (fifty thousand), including VAT (18%) in the amount of 7 627 (seven thousand, six hundred and twenty-seven) and 12 kopecks (Minutes #177 of the Company's Board of Directors, dated 09.11.2012);

30. On the approval of the conclusion of the Compensation Agreement (220/35/10 kV Poshekhonye Substation) for the complex technical re-equipment and reconstruction of the 220 kV Poshekhonye Substation), concluded by and between JSC Federal Grid Company and JSC IDGC of Center. The amount of the compensation due is set in accordance with p.3.1 and Appendix # 2 to the Compensation Agreement. The compensation amounts to RUR21 145 389 (twenty-one million, one hundred and forty-five thousand, three hundred and eighty-nine) and 39 kopecks, including VAT (18%) in the amount of RUR3 225 567 (three million, two hundred and twenty-five thousand, five hundred and sixty-seven) and 87 kopecks (Minutes #182 of the Company's Board of Directors, dated 29.11.2012);

31.On the approval of the sales agreement entitled "The Purchase of Power Grid Facilities on Valaam Island from JSC IDGC Holding", concluded by and between JSC Federal Grid Company and JSC IDGC of North-West. The price of the Agreement amounts to RUR14 111 620.00 (fourteen million, one hundred and eleven thousand, six hundred and twenty), including VAT (18%) in the amount of RUR2 152 620 (two million, one hundred and fifty-two thousand, six hundred and twenty) (Minutes #183 of the Company's Board of Directors, dated 25.12.2012);

Audit Commission Conclusion on the Audit of Operational and Financial Activities of Federal Grid Company for 2012

Appendix No. 2
to the Minutes of the Meeting
of the Audit Commission
No. 6 dated 30 April 2013

Moscow 30 April 2013

In compliance with Federal Law No.208-FZ "On Joint Stock Companies" dated 24 November 1995, the Articles of Association of Federal Grid Company, and the Plan of Audit of Federal Grid Company's operational and financial activities for 2012 (Minutes of Meeting No.1 dated 30 July 2012 and Minutes of Meeting No.3 dated 20 January 2013 respectively), an audit has been conducted of the 2012 annual report by the Company.

Based on this audit, and taking into account the findings of the audit of Federal Grid Company's financial (bookkeeping) accounts by RSM Top-Audit (No.EL-489 dated 18 March 2013) for 2012, the following conclusions were reached:

— Information contained in the Federal Grid Company's Annual Report and annual financial accounts for 2012 can be considered accurate in every significant respect;

— No evidence has been found of any violations of accounting procedures or financial reporting regulations, as stipulated by Russian laws.

Considering the above, the Audit Commission of Federal Grid Company has sufficient grounds to confirm the veracity, in every significant respect, of data contained in the Annual Report of Federal Grid Company and the Company's 2012 annual statements in all significant accounts.

This Conclusion has been made in three copies: the first copy has been enclosed to the Audit Commission's file; the second copy has been sent to the Company's Chairman of the Management Board; and the third copy has been sent to the Board of Directors of the Company.

Chairman of the Audit Commission of Federal Grid Company — V. Raspopov

Members of the Audit Commission — A. Kolyada, A. Drokova

2013 Investor Calendar

23-25 January	Инвестиционная конференция «Сектор-Sector-Russia Investment Conference organized by Deutsche Bank (London)
20 March	Publication of 2012 RAS Financial Statements
23 April	Publication of Financial Statements according to the FSA's requirements, including 2012 IFRS Financial Statements
6 May	Publication of Q1 2013 RAS Financial Statements
26 June	Meeting with Minority Shareholders
27 June	The Annual General Shareholders Meeting
1 August	Publication of H1 2013 RAS Financial Statements
2 September	Publication of H1 2013 IFRS Financial Statements
1 November	Publication of Q3 2013 RAS Financial Statements