



**Interregional Distribution Grid
Companies Holding (MRSK Holding) Group**

**Consolidated Financial Statements
for the year ended 31 December 2011**

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Independent Auditors' Report

To the Board of Directors of JSC IDGC Holding

We have audited the accompanying consolidated financial statements of Joint Stock Company IDGC Holding (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the 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 information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
26 April 2012

IDGC Holding Group
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011
(in millions of Russian roubles, unless otherwise stated)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Revenue and government subsidies	7	634,608	559,496
Operating expenses	8	(577,214)	(507,080)
Other income, net		1,860	1,803
Results from operating activities		59,254	54,219
Finance income	10	3,226	2,853
Finance costs	10	(9,069)	(10,890)
Net finance costs		(5,843)	(8,037)
Share of profit of equity accounted investees (net of income tax)	13	244	355
Profit before income tax		53,655	46,537
Income tax expense	11	(14,689)	(12,400)
Profit for the year		38,966	34,137
Other comprehensive income			
Change in fair value of available-for-sale financial assets	10	(264)	323
Change in fair value of available-for-sale financial assets transferred to profit or loss	10	(232)	(496)
Income tax on other comprehensive income	11	105	42
Other comprehensive income for the year, net of income tax		(391)	(131)
Total comprehensive income for the year		38,575	34,006
Profit attributable to:			
Owners of the Company		23,438	22,168
Non-controlling interest		15,528	11,969
Total comprehensive income attributable to:			
Owners of the Company		23,047	22,037
Non-controlling interest		15,528	11,969
Earnings per share			
Basic and diluted earnings per ordinary share	20	RUB 0.53	RUB 0.51

These consolidated financial statements were approved by management on 26 April 2012 and were signed on its behalf by:

Deputy General Director, Economics and Finance

A.V. Demidov



Chief Accountant

G.I. Zhabbarova

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 68.

IDGC Holding (MRSK Holding) Group
Consolidated Statement of Financial Position as at 31 December 2011
(in millions of Russian roubles, unless otherwise stated)

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	12	687,489	603,241
Intangible assets		4,368	3,635
Investments in equity accounted investees	13	1,280	1,052
Non-current accounts receivable	17	16,818	15,705
Other investments and financial assets	14	9,837	9,905
Deferred tax assets	15	2,599	2,413
Total non-current assets		722,391	635,951
Current assets			
Inventories	16	12,907	11,219
Other investments and financial assets	14	8,728	9,649
Current tax assets		4,516	3,051
Trade and other receivables	17	81,682	83,046
Cash and cash equivalents	18	48,853	24,890
Total current assets		156,686	131,855
Total assets		879,077	767,806

IDGC Holding (MRSK Holding) Group
Consolidated Statement of Financial Position as at 31 December 2011
(in millions of Russian roubles, unless otherwise stated)

	Notes	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
Equity	19		
Share capital		45,039	45,039
Share premium		6,036	6,036
Treasury shares		(1,786)	(1,786)
Reserve for prepayment for shares		9,382	-
Other reserves		280	671
Retained earnings		207,790	184,635
Total equity attributable to equity holders of the Company		266,741	234,595
Non-controlling interest		177,136	161,246
Total equity		443,877	395,841
Non-current liabilities			
Loans and borrowings	21	168,831	120,649
Trade and other payables	23	30,081	17,068
Employee benefits	22	9,660	9,039
Deferred tax liabilities	15	32,478	28,017
Total non-current liabilities		241,050	174,773
Current liabilities			
Loans and borrowings	21	26,954	27,139
Trade and other payables	23	161,920	167,145
Provisions		4,757	1,977
Current tax liabilities		519	931
Total current liabilities		194,150	197,192
Total liabilities		435,200	371,965
Total equity and liabilities		879,077	767,806

IDGC Holding (MRSK Holding) Group
Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2011	Year ended 31 December 2010
OPERATING ACTIVITIES		
Profit for the year	38,966	34,137
<i>Adjustments for:</i>		
Depreciation and amortization	54,075	46,025
Finance costs	9,069	10,890
Finance income	(3,226)	(2,853)
Loss on disposal of property, plant and equipment	106	252
Share of profit of equity accounted investees (net of income tax)	(244)	(355)
Gain on bargain purchase	-	(449)
Other non-cash transactions	545	(604)
Income tax expense	14,689	12,400
Operating profit before working capital changes and reserves	113,980	99,443
Change in trade and other receivables	(6,970)	(2,878)
Change in financial assets related to employee benefit fund	(11)	(157)
Change in inventories	(1,565)	31
Change in trade and other payables	6,285	4,859
Change in employee benefit liabilities	621	1,041
Change in provisions	2,780	1,057
Cash flows from operations before income taxes and interest paid	115,120	103,396
Income taxes paid	(12,186)	(11,190)
Interest paid	(13,596)	(15,783)
Net cash flows from operating activities	89,338	76,423

IDGC Holding (MRSK Holding) Group
Consolidated Statement of Cash Flows for the year ended 31 December 2011
(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2011	Year ended 31 December 2010
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(124,836)	(75,681)
Proceeds from sale of property, plant and equipment	1,087	784
Acquisition of investments and placement of bank deposits	(9,367)	(11,837)
Proceeds from disposal of investments and withdrawal of bank deposits	10,076	3,625
Acquisition of subsidiaries net of cash acquired	-	(1,075)
Dividends received	20	35
Interest received	1,202	934
Net cash flows used in investing activities	(121,818)	(83,215)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	139,724	132,166
Repayment of loans and borrowings	(87,002)	(129,148)
Proceeds from shares issued	10,687	7,965
Own shares acquired	-	(1,779)
Dividends paid	(1,670)	(616)
Repayment of finance lease liabilities	(5,296)	(6,123)
Net cash flows from financing activities	56,443	2,465
Net increase/(decrease) in cash and cash equivalents	23,963	(4,327)
Cash and cash equivalents at beginning of year	24,890	29,217
Cash and cash equivalents at end of year (Note 18)	48,853	24,890

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Reserve for prepayment for shares	Available-for-sale investments revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010	43,117	-	(7)	-	802	162,504	206,416	149,810	356,226
Profit for the year	-	-	-	-	-	22,168	22,168	11,969	34,137
Net change in fair value of available-for-sale financial assets	-	-	-	-	(173)	-	(173)	-	(173)
Income tax on other comprehensive income	-	-	-	-	42	-	42	-	42
Total comprehensive income for the year	-	-	-	-	(131)	22,168	22,037	11,969	34,006
Transactions with owners, recorded directly in equity									
Issue of shares (see Note 19)	1,922	6,036	-	-	-	-	7,958	-	7,958
Own shares acquired	-	-	(1,779)	-	-	-	(1,779)	-	(1,779)
Dividends	-	-	-	-	-	-	-	(577)	(577)
Effect on changes in non-controlling interest (see Note 19)	-	-	-	-	-	(37)	(37)	37	-
Issue of shares of subsidiaries (see Note 19)	-	-	-	-	-	-	-	7	7
Total transactions with owners, recorded directly in equity	1,922	6,036	(1,779)	-	-	(37)	6,142	(533)	5,609
Balance at 31 December 2010	45,039	6,036	(1,786)	-	671	184,635	234,595	161,246	395,841

IDGC Holding (MRSK Holding) Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2011
(in millions of Russian roubles, unless otherwise stated)

Attributable to equity holders of the Company

	Share capital	Share premium	Treasury shares	Reserve for prepayment for shares	Available-for-sale investments revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	45,039	6,036	(1,786)	-	671	184,635	234,595	161,246	395,841
Profit for the year	-	-	-	-	-	23,438	23,438	15,528	38,966
Net change in fair value of available-for-sale financial assets	-	-	-	-	(496)	-	(496)	-	(496)
Income tax on other comprehensive income	-	-	-	-	105	-	105	-	105
Total comprehensive income for the year	-	-	-	-	(391)	23,438	23,047	15,528	38,575
Transactions with owners, recorded directly in equity									
Share issue (Note 19)	-	-	-	9,382	-	-	9,382	-	9,382
Dividends	-	-	-	-	-	(104)	(104)	(1,517)	(1,621)
Effect on changes in non-controlling interest (see Note 19)	-	-	-	-	-	(574)	(574)	574	-
Issue of shares of subsidiaries (see Note 19)	-	-	-	-	-	-	-	1,305	1,305
Effect of employee share options (see Note 19)	-	-	-	-	-	395	395	-	395
Total transactions with owners, recorded directly in equity	-	-	-	9,382	-	(283)	9,099	362	9,461
Balance at 31 December 2011	45,039	6,036	(1,786)	9,382	280	207,790	266,741	177,136	443,877

1 Background

(a) The Group and its operations

Joint Stock Company “Interregional Distribution Grid Companies Holding” (hereinafter referred to as “JSC IDGC Holding” or “the Company”) was established on 1 July 2008 in accordance with the resolution of the Extraordinary General Meeting of the Shareholders of the Unified Energy System of Russia (hereinafter referred to as “RAO UES”) dated 26 October 2007 by the means of spin-off from RAO UES.

The ordinary and preference shares of the Company are traded on the MICEX-RTS Stock Exchange. Also GDRs of the Company are listed on the London Stock Exchange.

The Company’s registered office is located at 26 Ulanskiy pereulok, Moscow, Russia, 107996.

The IDGC Holding (MRSK Holding) Group (hereinafter referred to as “the Group”) comprises JSC IDGC Holding and its subsidiaries presented in Note 5.

The Group’s principal activities are electricity distribution and technological connection services. In addition few Group subsidiaries sell electricity.

(b) Russian business environment

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(c) Relations with state and current regulations

The Group’s strategic business units (see Note 6) are regional natural monopolies. The Russian Government directly affects the Group’s operations through the system of regional tariffs.

In accordance with legislation the Group’s tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commission in each region.

As at 31 December 2011 the Russian Government owned 55.95% of the voting ordinary shares and 7.01 % of the preference shares of the Company (31 December 2010: 54.99% of the voting ordinary shares and 7.01 % of the preference shares). In March 2011 the interest of the Russian Government in the share capital of the Company increased to 55.95% of the voting ordinary shares as a result of registration of the increase in share capital during the year (see Note 19). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group’s customer base includes a number of state-controlled entities.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial investments classified as available-for-sale are stated at fair value.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”), which is the Company’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest million.

(d) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 15 – deferred tax assets
- Note 24 – allowances for trade and other receivables
- Note 21 – lease classification

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 7 – revenue recognition
- Note 12 – useful lives of property, plant and equipment
- Note 22 – employee benefit liabilities
- Note 27 – contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. Certain comparative amounts have been reclassified to conform with the current year presentation.

(a) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(iii) *Acquisitions from entities under common control*

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements

of the acquired entities. The components of equity are added to the same components within Group entity, except that any share capital of the acquired entities is recognized as part of retained earnings. Any cash or other contribution paid for the acquisition is recognized directly in equity.

(iv) *Investments in associates (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Investments in associates are accounted for using the equity method and are recognised initially at cost.

The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any non-current investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(v) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) *Foreign currency*

(i) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(c) *Financial instruments*

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(ii) *Non-derivative financial assets*

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in note 17 and cash and cash equivalents as presented in note 18.

Cash and cash equivalents comprise cash balances and highly liquid investments normally with maturities at initial recognition of three months or less.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(i)(i) and foreign currency differences on available-for-sale debt instruments (see Note 3(b)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Available-for-sale financial assets comprise equity securities and financial assets related to employee benefit fund.

(iii) *Non-derivative financial liabilities*

The Group initially recognises debt securities issued on the date that they are originated. All other financial liabilities are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings and trade and other payables.

(iv) *Derivative financial instruments*

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in fair value of separable embedded derivatives are recognised immediately in profit or loss.

(d) *Share capital*

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

(e) *Property, plant and equipment*

(i) *Recognition and measurement*

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment as at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income/other expense in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	7-50 years
• transmission networks	5-40 years
• equipment for electricity transmission	5-40 years
• other	1-50 years

Depreciation methods, useful lives and residual values are reviewed at each financial year and adjusted if appropriate.

(f) Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

For the measurement of goodwill at initial recognition, see Note 3a(ii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- licenses and certificates 1-10 years
- software 1-15 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the

Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the

CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

(i) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) *Defined benefit post-employment plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past services are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognises all actuarial gains and losses in profit or loss for the reporting period under the 10% corridor of the post-employment benefit obligation.

The Group recognises all expenses related to defined benefit plans in personnel expenses in profit or loss.

(iii) *Other non-current employee benefits*

The Group's net obligation in respect of long term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Revenue

(i) Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity is recognised in profit or loss when the customer acceptance of the volume of electricity distributed or sold is received. The tariffs for distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services.

Revenue is recognized when electricity is activated and the customer is connected to the grid network, or, for contracts where connection services are performed in stages, revenue is recognized upon completion of stages.

(iii) Other services

Revenue from installation, repair and maintenance services and other sales is recognized when the services are provided or when the significant risks and rewards of ownership of the goods have passed to the buyer.

(m) Government subsidies

Government subsidies that compensate the Group for low electricity tariffs are recognised in profit or loss in the same periods in which the respective revenue is earned.

(n) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

(o) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, discount on financial instruments, and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, financial leasing, foreign currency losses, discount on financial instruments and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

(p) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Profit attributable to ordinary shareholders is calculated by adjusting profit attributable to owners of the Company by profit attributable to holders of preference shares.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(r) Guarantees

The Group's policy is to provide financial guarantees only in respect of loans issued to the Group's lessors. The Group considers these instruments as insurance contracts and accounts for them as such.

(s) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Management Board, which is the Group's chief operating decision making body.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Management Board, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office revenue, expenses, assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the amended standard on its financial position or performance.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

The new standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new standard on its financial position or performance.
- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The new standard is not expected to have a significant effect on the consolidated financial statements of the Group.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The new standard will not have any impact on the Group's financial position or performance.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. . The new standard is not expected to have a significant effect on the consolidated financial statements of the Group.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 **Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Investments in equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Trade and other receivables

The fair value of non-current trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount. This fair value is determined for disclosure purpose.

(e) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate and currency swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of issued bonds the fair value is determined by reference to their quoted closing

price at the reporting date. For financial leases the market rate of interest is determined by reference to similar lease agreements.

5 Significant subsidiaries

	Country of incorporation	31 December 2011	31 December 2010
		Ownership/voting, %	Ownership/voting, %
JSC "Tyumenenergo"	Russian Federation	100	100
JSC "IDGC of Volga"	Russian Federation	67.63	67.63
JSC "IDGC of North Caucasus"	Russian Federation	58.25	58.25
JSC "IDGC of North-West"	Russian Federation	55.38	55.38
JSC "IDGC of Siberia"	Russian Federation	55.59	52.88
JSC "IDGC of South"	Russian Federation	51.66	51.66
JSC "IDGC of Urals"	Russian Federation	51.52	51.52
JSC "MOESK"	Russian Federation	50.9	50.9
JSC "Lenenergo"	Russian Federation	45.71 / 50.31	45.71 / 50.31
JSC "IDGC of Centre and Volga region"	Russian Federation	50.4	50.4
JSC "IDGC of Centre"	Russian Federation	50.23	50.23
JSC "Yantarenergo"	Russian Federation	100	100
JSC "TDC"	Russian Federation	52.03 / 59.88	52.03 / 59.88
JSC "Kubanenergo"	Russian Federation	45.77*	40.63*
JSC "Karachaevo-Cherkesskenergo"	Russian Federation	100	100
JSC "Kalmenergosbyt"	Russian Federation	100	100
JSC "Tyvaenergosbyt"	Russian Federation	100	100
JSC "Kabbalkenergo"	Russian Federation	65.27	65.27
JSC "Dagestan Power Sales Company"	Russian Federation	51	51
JSC "Sevkavkazenergo"	Russian Federation	49*	49*
JSC "Ingushenergo"	Russian Federation	49*	49*
JSC "Research Centre of IDGC"	Russian Federation	100	100
JSC "VNIPIenergoprom"	Russian Federation	100	100
JSC "Special design bureau for heat and power equipment VTI"	Russian Federation	100	100
JSC "Power Grid Optical Networks Engineering"	Russian Federation	100	100

	Country of incorporation	31 December 2011	31 December 2010
		Ownership/voting, %	Ownership/voting, %
JSC "NEMC"	Russian Federation	49	49 / 57.4
JSC "Nedvizhimost VNIPIenergoprom"	Russian Federation	100	100
JSC "NIC of UES"	Russian Federation	100	100
JSC "NIC North - West"	Russian Federation	100	100
JSC "NIC Volga"	Russian Federation	100	100
JSC "NIC of the South"	Russian Federation	100	100
JSC "NIC Urals"	Russian Federation	100	100
JSC "NIC Siberia"	Russian Federation	100	100

* The Group exercises control over these entities stemming from majority representation on the Board of Directors.

Business combinations

In the fourth quarter of 2010 JSC "IDGC of Centre", the Group subsidiary, obtained control over JSC "Yargorelectroset" operations by acquiring 100 % of the shares of JSC "Yargorelectroset" from a third party.

Revenues and financial results of JSC "Yargorelectroset" have not had any significant effect on these consolidated financial statements.

The identifiable assets acquired and the liabilities assumed were as follows:

	Recognised fair value at acquisition
Assets	
Property, plant and equipment	1,710
Cash and cash equivalents	25
Other assets	480
Total assets	2,215
Current assets	
Deferred tax liabilities	(76)
Other liabilities	(590)
Total liabilities	(666)
Net identifiable assets and liabilities	1,549
Total consideration transferred (settled in cash)	(1,100)
Gain on bargain purchase	449

OJSC "Yargorelectroset" was acquired through an auction where the selling price was determined by auction bidders. The gain resulted from this acquisition transaction of RUB 449 million was recognised within other income in the consolidated statement of comprehensive income.

6 Operating segments

The Group has thirteen reportable segments, as described below, which are the Group's strategic business units. Each strategic business unit offers electricity distribution services including technological connection services in separate geographical region of the Russian Federation and is managed separately. The "other" segment includes insignificant operating segments such as electricity sales, rent services and repair and maintenance services. For each of the strategic business units, the Management Board reviews internal management reports on at least a quarterly basis. Unallocated items comprise assets and balances of the Group's headquarter which exercises management activity on remuneration basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on earnings before interest expense, income tax and depreciation and amortisation (EBITDA), as included in the internal management reports that are reviewed by the Management Board. EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

(i) **Information about reportable segments**

As at and for the year ended 31 December 2011:

	IDGC										Yantar- energo	IDGC Centre	MOESK	Other	Total
	Siberia and Tomskaya DC	Tyumen- energo	IDGC Urals	IDGC Volga	IDGC South Kubanenergo	IDGC North Caucasus	IDGC Centre and Privolzh'ye	IDGC North-West	Lenenergo						
Revenue from external customers	58,955	47,447	49,809	47,801	23,997	28,708	7,914	64,381	28,025	36,915	8,743	67,910	126,533	38,575	635,713
Inter-segment revenue	42	2	4,763	26	359	-	2,628	23	2,823	94	70	218	13	17,684	28,745
Total segment revenue	58,997	47,449	54,572	47,827	24,356	28,708	10,542	64,404	30,848	37,009	8,813	68,128	126,546	56,259	664,458
Including															
<i>Electricity transmission</i>	56,861	45,764	52,866	47,222	22,688	27,535	10,235	63,249	29,489	28,526	7,569	65,671	106,993	8,453	573,121
<i>Connection services</i>	1,526	1,295	1,328	266	1,464	1,086	115	816	884	8,311	1,082	1,677	18,860	1,043	39,753
<i>Other revenue</i>	610	390	378	339	204	87	192	339	475	172	162	780	693	46,763	51,584
Finance income	53	80	24	13	14	339	-	77	20	57	1	118	106	125	1,027
Finance costs	(383)	(372)	(241)	(266)	(1,493)	(1,040)	(39)	(1,139)	(324)	(1,167)	(153)	(1,133)	(2,581)	(134)	(10,465)
Depreciation	3,430	5,399	2,640	3,877	2,237	1,299	1,430	4,064	2,692	5,106	269	5,257	15,200	1,463	54,363
EBITDA	4,739	11,737	5,897	5,601	4183	(221)	1,981	10,890	3,956	8,577	1,120	13,710	39,582	(4,844)	106,908
Segment assets	54,866	127,402	47,158	57,368	41,848	36,547	27,356	79,294	41,058	107,778	7,074	85,108	265,575	49,683	1,028,115
<i>Including property, plant and equipment and construction in progress</i>															
Capital expenditure	43,532	113,315	36,694	48,466	28,928	24,967	23,394	64,298	33,354	90,196	4,494	69,677	197,449	26,193	804,957
	7,766	11,974	6,412	7,584	4,107	4,389	5,603	13,552	5,151	15,327	709	15,045	29,527	4,340	131,486
Segment liabilities	22,055	23,105	15,941	15,434	25,285	22,769	10,841	33,997	13,762	51,583	3,897	34,591	110,397	38,665	422,322

As at and for the year ended 31 December 2010:

	IDGC										Total				
	Siberia and Tomskaya DC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South Kubanenergo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West Lenenergo	Yantar-energo	IDGC Centre		MOESK	Other		
Revenue from external customers	48,333	45,951	45,606	39,417	21,380	24,530	5,652	54,389	24,183	33,597	7,085	60,279	110,616	35,690	556,708
Inter-segment revenue	720	196	4,178	3	635	5	4,809	6	2,486	604	117	126	18	14,660	28,563
Total segment revenue	49,053	46,147	49,784	39,420	22,015	24,535	10,461	54,395	26,669	34,201	7,202	60,405	110,634	50,350	585,271
Including															
<i>Electricity transmission</i>	47,049	42,805	47,763	38,737	20,996	23,289	9,436	53,106	25,346	23,873	6,812	57,563	91,239	13,271	501,285
<i>Connection services</i>	1,039	2,888	1,686	276	292	1,169	844	954	668	10,164	242	2,186	18,945	733	42,086
<i>Other revenue</i>	965	454	335	407	727	77	181	335	655	164	148	656	450	36,346	41,900
Finance income	32	197	16	3	7	297	-	42	9	63	2	35	202	144	1,049
Finance costs	(629)	(686)	(392)	(306)	(1,733)	1,114	(28)	(988)	(474)	(938)	(115)	(1,013)	(2,696)	(157)	(9,041)
Depreciation	3,364	4,862	2,342	3,510	2,171	1,138	1,330	3,480	2,537	4,190	200	4,353	12,164	1,373	47,014
EBITDA	1,570	13,246	5,109	4,684	66	(295)	2,267	6,732	2,654	11,968	685	10,927	36,052	1,050	96,715
Segment assets	49,340	100,093	44,545	50,429	37,857	35,049	22,481	65,493	38,326	88,700	6,384	71,136	245,237	52,307	907,377
<i>Including property, plant and equipment and construction in progress</i>															
Capital expenditure	39,453	87,633	33,044	44,635	26,561	20,070	17,466	53,737	30,827	77,266	4,036	54,506	177,471	23,099	689,804
	4,298	6,524	4,645	4,246	1,779	2,498	2,187	8,414	2,736	14,967	994	12,231	19,532	1,970	87,021
Segment liabilities	18,272	16,284	14,686	8,184	21,272	21,115	6,765	23,649	10,977	36,941	3,681	25,188	110,385	34,673	352,072

(ii) Major customer

In 2011 INTER RAO UES Group (primarily electricity sales companies within INTER RAO UES Group) was a major customer of the Group. Total revenues from companies of INTER RAO UES Group amounted to RUB 130,393 million for the year ended 31 December 2011.

(iii) Reconciliations of reportable segment revenues, EBITDA and assets and liabilities

Reconciliation of key segment items measured as reported to the Management Board with similar items in these financial statements is presented in the tables below.

Reconciliation of reportable segment revenue is presented below:

	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Total segment revenues	664,458	585,271
Intersegment revenue elimination	(28,745)	(28,563)
Reclassification from other income	2,645	4,045
Other adjustments	(3,795)	(1,463)
Unallocated revenues	45	206
Revenues per Consolidated Statement of Comprehensive Income	<u>634,608</u>	<u>559,496</u>

Reconciliation of reportable segment EBITDA is presented below:

	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
EBITDA of reportable segments	106,908	96,715
Adjustment for disposal of property, plant and equipment	(76)	(152)
Adjustment for inventories valuation	6	221
Discounting of financial instruments	(3)	(545)
Bad debt allowance adjustment	6,061	(1,093)
Adjustments for financial lease	6,021	4,669
Accrued salaries and wages	(663)	(1,106)
Retirement benefit obligations recognition	(621)	(1,041)
Assets related to employee benefit fund	244	161
Provisions	491	(952)
Adjustments for deferred expenses	831	1,139
Other adjustments	(4,103)	2,370
Unallocated	1,411	2,096
	<u>116,507</u>	<u>102,482</u>
Depreciation and amortization	(54,075)	(46,025)
Interest expenses on financial liabilities measured at amortised cost	(6,816)	(6,647)
Financial leasing	(1,961)	(3,273)
Income tax expense	(14,689)	(12,400)
Profit for the year per Consolidated Statement of Comprehensive Income	<u>38,966</u>	<u>34,137</u>

Reconciliation of reportable segment total assets is presented below:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Total segment assets	1,028,115	907,377
Intersegment balances	(12,164)	(14,352)
Intersegment investments	(9,634)	(9,830)
Net-off trade and other receivables and payables	(688)	(85)
Adjustment for net book value of property, plant and equipment	(124,191)	(101,825)
Recognition of assets related to employee benefits	5,476	5,232
Investments in equity accounted investees	(56)	(290)
Adjustments for impairment of account receivables	(8,774)	(13,277)
Inventories written-off	(591)	(538)
Adjustment for deferred tax calculation	(5,034)	(1,993)
Advances given	(18,935)	(17,900)
Other adjustments	(2,660)	(5,164)
Unallocated assets	28,213	20,451
Total assets per Consolidated Statement of Financial Position	<u>879,077</u>	<u>767,806</u>

Reconciliation of reportable segment total liabilities is presented below:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Total segment liabilities	422,322	352,072
Intersegment balances	(12,009)	(14,222)
Net-off trade and other receivables and payables	(688)	(85)
Adjustment for deferred tax calculation	11,359	13,293
Retirement benefit obligations	9,660	9,039
Finance lease liabilities	4,663	8,948
Accrued salaries and wages	590	4,662
Other provisions and accruals	(872)	2,678
Other adjustments	(635)	(5,213)
Unallocated liabilities	810	793
Total liabilities per Consolidated Statement of Financial Position	<u>435,200</u>	<u>371,965</u>

7 Revenue and government subsidies

	Year ended 31 December 2011	Year ended 31 December 2010
Electricity transmission	552,634	476,360
Technological connection services	40,099	42,890
Electricity sales	31,794	30,281
Other revenues	9,838	8,799
	634,365	558,330
Government subsidies	243	1,166
	634,608	559,496

Other revenue is comprised of rental income, repair and maintenance services, communication services, transportation services, etc.

Government subsidies

In accordance with government decrees some regions of the Russian Federation are subject to subsidies from the federal budget. These subsidies represent compensation for low electricity tariffs at which electricity is sold in these regions.

8 Operating expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Electricity transmission	215,128	175,385
Personnel costs (see Note 9)	104,615	87,825
Purchased electricity for compensation of technological losses	100,906	101,115
Depreciation and amortization	54,075	46,025
Purchased electricity for resale	18,691	18,898
Raw materials and supplies	15,905	14,860
Repairs, maintenance and installation services	14,817	13,948
Impairment of trade and other receivables	7,668	8,581
Rent	6,087	7,107
Consulting, legal and audit services	4,712	5,251
Utilities	3,104	3,035
Taxes other than income tax	2,683	2,544
Other expenses	28,823	22,506
	577,214	507,080

Other expenses are comprised mainly of security services, insurance, transportation cost, telecommunication and information services, bank charges, travel allowance, labour safety expense and training expense.

9 Personnel costs

	Year ended 31 December 2011	Year ended 31 December 2010
Wages and salaries	76,793	67,556
Social security contributions	21,228	14,430
Expense in respect of post-employment defined benefit plan	2,821	1,981
(Income)/expense in respect of long-term service benefits provided	(316)	492
Other	4,089	3,366
	104,615	87,825

The amount of contributions to defined contribution plan was RUB 13,466 million for the year ended 31 December 2011 (2010: RUB 9,905 million).

10 Finance income and costs

	Year ended 31 December 2011	Year ended 31 December 2010
Recognised in profit or loss		
<i>Finance income</i>		
Interest income on loans, bank deposits and promissory notes	2,084	1,474
Gain on disposal of financial assets	645	484
Gain on disposal of available-for-sale financial assets reclassified from other comprehensive income	232	496
Other finance income	265	399
	3,226	2,853
<i>Finance costs</i>		
Interest expenses on financial liabilities measured at amortised cost	(6,816)	(6,647)
Financial leasing	(1,961)	(3,273)
Other finance costs	(292)	(970)
	(9,069)	(10,890)
Recognised in other comprehensive income		
Net change in fair value of available-for-sale financial assets	(264)	323
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(232)	(496)
Income tax on income and expense recognised in other comprehensive income	105	42
	(391)	(131)

11 Income tax expense

	Year ended 31 December 2011	Year ended 31 December 2010
Current tax expense		
Current year	(13,979)	(12,491)
Over provided in prior years	3,670	2,698
	(10,309)	(9,793)
Deferred tax expense		
Origination and reversal of temporary differences	545	729
Derecognition of deferred tax assets	(1,321)	(951)
Change in tax base of property, plant and equipment	(3,604)	(2,385)
	(4,380)	(2,607)
	(14,689)	(12,400)

The Group's applicable tax rate in 2011 and 2010 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

In 2011 and 2010 the Group recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result adjusted tax declarations were submitted to tax authorities and income tax overprovided in prior periods was recognised. Accordingly tax value of property, plant and equipment was decreased that resulted in increase of deferred tax liabilities.

Income tax recognised in other comprehensive income

	2011			2010		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Available-for-sale financial assets	(496)	105	(391)	(173)	42	(131)
	(496)	105	(391)	(173)	42	(131)

Reconciliation of effective tax rate:

	Year ended 31 December 2011	%	Year ended 31 December 2010	%
Profit before income tax	53,655	100%	46,537	100
Income tax at applicable tax rate	(10,731)	(20)	(9,307)	(20)
Effect of income taxed at lower rates	38	-	28	-
Non-deductible expenses	(2,741)	(5)	(2,483)	(5)
Change in tax base of property, plant and equipment	(3,604)	(7)	(2,385)	(6)
Over provided in prior years	3,670	7	2,698	6
Derecognition of deferred tax assets	(1,321)	(2)	(951)	(2)
	(14,689)	(27)	(12,400)	(27)

12 Property, plant and equipment

	Land and buildings	Transmis- sion networks	Equipment for electricity transmission	Other	Construc- tion in progress	Total
<i>Cost / Deemed cost</i>						
Balance at 1 January 2010	88,522	275,023	124,818	65,150	102,984	656,497
Acquisitions through business combinations	419	842	337	36	76	1,710
Additions	429	1,370	2,109	4,096	80,039	88,043
Transfer	18,358	27,196	27,087	14,928	(87,569)	-
Disposals	(287)	(297)	(207)	(815)	(832)	(2,438)
Balance at 31 December 2010	107,441	304,134	154,144	83,395	94,698	743,812
Balance at 1 January 2011	107,441	304,134	154,144	83,395	94,698	743,812
Additions	2,022	3,244	4,499	6,599	123,071	139,435
Transfer	19,309	35,058	31,896	15,048	(101,311)	-
Disposals	(303)	(445)	(260)	(787)	(1,238)	(3,033)
Balance at 31 December 2011	128,469	341,991	190,279	104,255	115,220	880,214
<i>Depreciation</i>						
Balance at 1 January 2010	(9,817)	(48,409)	(20,846)	(17,397)	-	(96,469)
Depreciation charge	(4,645)	(19,965)	(9,759)	(10,450)	-	(44,819)
Disposals	60	104	87	466	-	717
Balance at 31 December 2010	(14,402)	(68,270)	(30,518)	(27,381)	-	(140,571)
Balance at 1 January 2011	(14,402)	(68,270)	(30,518)	(27,381)	-	(140,571)
Depreciation charge	(5,777)	(22,325)	(11,233)	(13,712)	-	(53,047)
Disposals	60	167	126	540	-	893
Balance at 31 December 2011	(20,119)	(90,428)	(41,625)	(40,553)	-	(192,725)
<i>Net book value</i>						
At 1 January 2010	78,705	226,614	103,972	47,753	102,984	560,028
At 31 December 2010	93,039	235,864	123,626	56,014	94,698	603,241
At 31 December 2011	108,350	251,563	148,654	63,702	115,220	687,489

As at 31 December 2011 construction in progress includes advance payments for property, plant and equipment of RUB 12,023 million (31 December 2010: RUB 10,641 million) which are stated net of impairment provision of RUB 723 million (31 December 2010: RUB 813 million).

Capitalised borrowing cost for the year ended 31 December 2011 amounted to RUB 4,575 million (2010: RUB 6,137 million) with capitalisation rates of 7-11% (2010: 8-13%).

As at 31 December 2011 property, plant and equipment with a carrying amount of RUB 67 million are pledged as collateral for loans (31 December 2010: RUB 67 million) (see Note 21).

Impairment testing

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2011. As a result of impairment testing no impairment loss has been recognised for the year ended 31 December 2011 (year ended 31 December 2010: nil).

Leased equipment and transport

The Group leases production equipment and transport under a number of financial lease agreements. At the end of each of the leases the Group has the option to purchase the equipment. As at 31 December 2011 the net book value of leased property, plant and equipment was RUB 23,237 million (2010: RUB 25,888 million). The leased equipment secures lease obligations.

13 Equity accounted investees

The Group has the following investments in equity accounted investees:

	<u>Country</u>	<u>Ownership/Voting</u>
JSC "Nurenergo"	Russian Federation	23%
JSC "Kurganenergo"	Russian Federation	49%
JSC "ENIN"	Russian Federation	31.34%
CJSC "LEIVO"	Russian Federation	50%

The following is summarised financial information, in aggregate, in respect of equity accounted investees:

	<u>31 December 2011</u>	<u>31 December 2010</u>
Total assets	9,296	12,281
Total liabilities	(11,792)	(13,798)
Revenue	6,036	5,705
Loss for the year	(1,132)	(1,072)

	As at 1 January 2011	Share of profit for the year	Dividends received	Other movement	As at 31 December 2011
JSC "Kurganenergo"	931	246	-	-	1,177
JSC "ENIN"	32	-	(1)	-	31
CJSC "LEIVO"	89	(2)	(15)	-	72
	1,052	244	(16)	-	1,280

	As at 1 January 2010	Share of profit for the year	Dividends received	Other movement	As at 31 December 2010
JSC "Kurganenergo"	665	266	-	-	931
JSC "Tulenergokomplekt"	32	(4)	-	(28)	-
JSC "ENIN"	32	-	-	-	32
CJSC "LEIVO"	-	93	(10)	6	89
	729	355	(10)	(22)	1,052

In 2010 JSC "Tulenergokomplekt" where the Group had 50% ownership started a liquidation process and was derecognised as no further economic benefits would be expected from it.

14 Other investments and financial assets

	31 December 2011	31 December 2010
<i>Non-current</i>		
Available-for-sale financial assets related to defined benefit plan	5,476	5,232
Promissory notes	3,551	3,516
Available-for-sale investments	747	1,047
Other non-current assets	63	110
	9,837	9,905
<i>Current</i>		
Bank deposits	5,867	8,000
Promissory notes	2,861	1,649
	8,728	9,649

Available-for-sale financial assets related to defined benefit plan relate to the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

Available-for-sale investments are mainly represented by marketable securities stated at fair value.

Long-term promissory notes represent primarily promissory notes with interest rate of 13% per annum that mature in 2014.

Bank deposits with original maturity more than 3 months were placed with a number of banks bearing an interest of 2.80-9.25% per annum.

The Group's exposure to credit risk and impairment losses related to other investments and financial assets are disclosed in Note 24.

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Property, plant and equipment	621	956	(41,399)	(37,184)	(40,778)	(36,228)
Intangible assets	73	37	(7)	(2)	66	35
Investments	113	172	(44)	(163)	69	9
Inventories	341	383	(7)	(18)	334	365
Trade and other receivables and prepayments	5,466	4,438	(335)	(125)	5,131	4,313
Financial lease liability	2,433	2,963	-	(44)	2,433	2,919
Loans and borrowings	-	-	(222)	(224)	(222)	(224)
Provisions	685	248	-	-	685	248
Employee benefits	1,361	1,788	(227)	(1,046)	1,134	742
Trade and other payables	1,678	2,036	(126)	(93)	1,552	1,943
Tax loss carry-forwards	1,882	814	-	-	1,882	814
Other	328	590	(221)	(179)	107	411
Tax assets/(liabilities)	14,981	14,425	(42,588)	(39,078)	(27,607)	(24,653)
Set off of tax	(10,110)	(11,061)	10,110	11,061	-	-
Derecognition of deferred tax assets	(2,272)	(951)	-	-	(2,272)	(951)
Net tax assets/(liabilities)	2,599	2,413	(32,478)	(28,017)	(29,879)	(25,604)

(b) Unrecognised deferred tax liabilities

At 31 December 2011 a deferred tax liability of RUB 15,092 million (31 December 2010: RUB 11,726 million) for temporary differences of RUB 75,460 million (31 December 2010: RUB 58,631 million) related to an investment in subsidiaries was not recognised because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2011	31 December 2010
Deductible temporary differences	6,918	4,543
Tax losses	4,440	212
Total	11,358	4,755
Unrecognized deferred tax assets at applicable tax rate	2,272	951

The deductible temporary differences do not expire under current tax legislation. Tax losses expire in 10 years from their origination in 2019-2021. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which some group companies in North Caucasus can utilise the benefits there from.

(d) Movement in temporary differences during the year

	1 January 2011	Acquired in business combinations	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Property, plant and equipment	(36,228)	-	(4,550)	-	(40,778)
Intangible assets	35	-	31	-	66
Investments	9	-	(45)	105	69
Inventories	365	-	(31)	-	334
Trade and other receivables and prepayments	4,313	-	818	-	5,131
Financial lease liability	2,919	-	(486)	-	2,433
Loans and borrowings	(224)	-	2	-	(222)
Provisions	248	-	437	-	685
Employee benefits	742	-	392	-	1,134
Trade and other payables	1,943	-	(391)	-	1,552
Other	411	-	(304)	-	107
Tax loss carry-forwards	814	-	1,068	-	1,882
Derecognition of deferred tax assets	(951)	-	(1,321)	-	(2,272)
	(25,604)	-	(4,380)	105	(29,879)

	1 January 2010	Acquired in business combinations	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Property, plant and equipment	(33,197)	(88)	(2,943)	-	(36,228)
Intangible assets	9	-	26	-	35
Investments	(479)	-	446	42	9
Inventories	416	3	(54)	-	365
Trade and other receivables and prepayments	4,023	7	283	-	4,313
Financial lease liability	3,726	-	(807)	-	2,919
Loans and borrowings	189	-	(413)	-	(224)
Provisions	118	-	130	-	248
Employee benefits	730	2	10	-	742
Trade and other payables	833	1	1,109	-	1,943
Other	93	(1)	319	-	411
Tax loss carry-forwards	576	-	238	-	814
Derecognition of deferred tax assets	-	-	(951)	-	(951)
	(22,963)	(76)	(2,607)	42	(25,604)

16 Inventories

	31 December 2011	31 December 2010
Raw materials and consumables	12,349	10,863
Other inventories	1,176	894
Allowance for obsolescence of inventories	(618)	(538)
Net book value	12,907	11,219

At 31 December 2011 no inventories are pledged as collateral for loans (31 December 2010: inventories in the amount of RUB 5 million) (see Note 21).

17 Trade and other receivables

	<u>31 December 2011</u>	<u>31 December 2010</u>
Non-current accounts receivable		
Trade receivables	1,312	2,257
Trade receivables impairment allowance	(1,182)	(1,685)
Other receivables	998	715
Other receivables impairment allowance	(2)	(2)
Loans	48	50
Total financial assets	<u>1,174</u>	<u>1,335</u>
Advances given	14,631	12,361
Advances given impairment allowance	(2,990)	-
VAT recoverable	43	397
VAT on advances from customers	3,960	1,612
	<u>16,818</u>	<u>15,705</u>
Current accounts receivable		
Trade receivables	67,580	62,779
Trade receivables impairment allowance	(19,941)	(17,464)
Other receivables	6,940	9,618
Other receivables impairment allowance	(2,529)	(1,831)
Receivables from equity accounted investees	97	1,538
Loans	195	29
Total financial assets	<u>52,342</u>	<u>54,669</u>
Advances given	10,947	9,432
Advances given impairment allowance	(500)	(554)
VAT recoverable	5,271	3,399
VAT on advances from customers	11,275	14,686
Prepaid taxes, other than income tax	2,347	1,414
	<u>81,682</u>	<u>83,046</u>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 24.

18 Cash and cash equivalents

	<u>31 December 2011</u>	<u>31 December 2010</u>
Cash at bank and in hand	26,804	24,844
Cash equivalents	22,049	46
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	<u>48,853</u>	<u>24,890</u>

Cash equivalents represent primarily bank deposits with original maturity less than 3 months placed with a number of banks bearing an interest of 2.80-9.25% per annum.

Bank deposits are mainly placed with banks which were designated as highly rated banks.

19 Equity

(a) Share capital

Number of shares unless otherwise stated

	<u>Ordinary shares</u>		<u>Preference shares</u>	
	<u>31 December 2011</u>	<u>31 December 2010</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	42,964,067,081	41,041,753,984	2,075,149,384	2,075,149,384
Issued for cash	-	1,922,313,097	-	-
On issue at end of year, fully paid	<u>42,964,067,081</u>	<u>42,964,067,081</u>	<u>2,075,149,384</u>	<u>2,075,149,384</u>

(b) Ordinary and preference shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Company shareholders' meetings

Holders of preference shares have no right of conversion or redemption, but are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

If the dividend is not paid, preference shares carry the right to vote on all issues within the competence of general shareholders' meetings following the Annual Shareholders' Meeting at which a decision not to pay (or not to pay the full amount of) dividends on preference shares was taken. The right of preference shareholders to vote at general shareholders' meetings ceases from the date of the first full payment of dividends on such shares. However, the dividend is not cumulative. The preference shares also carry the right to vote in respect of issues that affect the interests of preference shareholders, including reorganisation and liquidation.

In the event of liquidation preference shareholders first receive any declared unpaid dividends and the par value of the preference shares. Thereafter all shareholders, ordinary and preference, participate equally in the distribution of the remaining assets.

(c) Issuance of additional shares

On 30 September 2011 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 5,444,391,292 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 3.08 roubles per share. Advances received as prepayment for share issue as at 31 December 2011 in the amount of RUB 9,382 million were recognised as a reserve for prepayment for shares within equity.

On 26 March 2010 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 1,922,313,097 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 4.14 roubles per share. On 29 December 2010 the placement of all approved shares was completed. Report of additional share issue was registered by the Federal Service for Financial Markets on 3 February 2011. The increase in share capital was registered on 26 March 2011.

The increase in share capital of RUB 1,922 million and share premium of RUB 6,036 million were recognised within equity for the year ended 31 December 2010.

429,642,598 shares of additional share issue were repurchased by the Group for the purpose of establishing an employees share option plan (Note 19 (f)). The repurchase amount of RUB 1,779 million was recognised as treasury shares within equity for the year ended 31 December 2010.

(d) Non-controlling interest

On 23 November 2011 the Extraordinary General Meeting of Shareholders of JSC "Kubanenergo", the Group subsidiary, approved an increase in charter capital through issuance of additional 97,478,760 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 103.44. This share issuance was registered by the Federal Service for Financial Markets on 21 February 2012.

On 25 October 2010 the Extraordinary General Meeting of Shareholders of JSC "Kubanenergo", the Group subsidiary, approved an increase in charter capital through issuance of additional 31,732,913 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 184.92. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. In April 2011, 13,204,353 shares were subscribed by the Group and 6,949,343 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 3,727 million. Additional capital of RUB 1,285 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2011. As a result of the subscription of shares the Group's ownership interest in JSC "Kubanenergo" increased from 40.63% to 45.77%.

On 23 July 2009 the Extraordinary General Meeting of Shareholders of JSC "Kubanenergo" approved an increase in charter capital through issuance of additional 59,493,882 ordinary shares with a par value of 100 rouble each under an open subscription. The approved offering price was RUB 126.26. During the year 2010 out of this amount 15,780,600 shares were subscribed by the Group and 53,032 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 1,999 million.

Additional capital of RUB 7 million attributable to non-controlling shareholders was recognized as non-controlling interest as at 31 December 2010. As a result of the subscription of shares the Group's ownership interest in JSC "Kubanenergo" increased from 25.42% to 40.63% during the year 2010.

The Group exercises control over JSC "Kubanenergo" which stems from majority representation on the Board of Directors.

On 9 March 2011 the Extraordinary General Meeting of Shareholders of JSC “IDGC of Siberia”, the Group subsidiary, approved an increase in charter capital through issuance of additional 6,605,021,036 ordinary shares with a par value of RUB 0.1 each under a closed subscription. The approved offering price was RUB 0.32 per share. This share issuance was registered by the Federal Service for Financial Markets on 21 April 2011. In June 2011 all placed 5,447,508,134 shares were subscribed by the Group which paid RUB 1,743 million. As a result of the subscription of shares the Group’s ownership interest in JSC “IDGC of Siberia” increased from 52.88% to 55.59%.

On 25 November 2011 the Extraordinary General Meeting of Shareholders of JSC “Lenenergo”, the Group subsidiary, approved an increase in charter capital through issuance of additional 273,023,689 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 14.56. This share issuance was registered by the Federal Service for Financial Markets on 22 February 2012.

On 23 November 2011 the Extraordinary General Meeting of Shareholders of JSC “IDGC of North Caucasus”, the Group subsidiary, approved an increase in charter capital through issuance of additional 44,632,214 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 92.54. This share issuance was registered by the Federal Service for Financial Markets on 28 February 2012.

(e) Dividends

In accordance with Russian legislation the Company’s distributable reserves are limited to the balance of retained earnings as recorded in the Company’s statutory financial statements prepared in accordance with Russian Accounting Principles.

At the annual shareholders meeting held on 22 June 2011 the decision was made not to declare dividends for the year 2010 for ordinary shares and to declare dividends in the amount of RUB 0.05 per share for preference shares.

(f) Share options

On 9 November 2010 the Company's Board of Directors approved an Incentive Program (“the Option Program”) for managers of the Company and its subsidiaries. In March 2011, contracts for the sale of the Company's shares were entered into with a managing company of a mutual fund which was established by the Group specifically for the purpose of establishing the Option Program, and the participants in the Option Program, stipulating deferred transfer and cash payment obligations by the Option Program participants (“the Contract”). Under the terms of the Contracts, the participants in the Option Program may exercise their right to acquire shares not earlier than three years from the effective date of the Contract, and retain this right until the expiry of a five-year period from the effective date of the Contract. If employment relations between a participant in the Option Program and the Group are terminated before the due date for performance of the Contract, the number of shares the participant is entitled to acquire will depend on time that has passed since the Contract signing date (except for termination due to unsatisfactory work under Russian Federation Labour Code).

During the year ended 31 December 2011 Contracts with key managers of the Company were signed for the options with weighted average exercise price of RUB 4.14 per share for 325,600,000 shares out of the 429,642,598 shares allocated for this purpose. During the year ended 31 December 2011 options for 16,500,000 shares were cancelled as certain employees retired under the ordinary conditions of labour agreements.

The fair value of services received in return for share options granted to employees was measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model. Key inputs were as follows:

Share price (in Russian roubles)	4.47
Exercise price (in Russian roubles)	4.14
Expected volatility	42%
Expected average option life (years)	4
Risk-free interest rate	7%
Fair value per share at measurement date (in Russian roubles)	2

Volatility was calculated based on historic volatility of the Company's shares quoted prices at MICEX. Risk-free rate was calculated based on yield of government bonds with the similar maturity.

The expenses arising from share option program for the year ended 31 December 2011 in the amount of RUB 395 million (year ended 31 December 2010: nil) were charged as personnel costs to profit and loss. The same amount was recognised within retained earnings as part of transactions with owners recorded directly in equity in the consolidated statement of changes in equity for the year ended 31 December 2011.

20 Earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to ordinary shareholders of RUB 22,348 million (31 December 2010: RUB 21,101 million), and a weighted average number of ordinary shares outstanding of 42,528 million (31 December 2010: 41,044 million), calculated as shown below. The Company has no dilutive ordinary shares.

<i>In millions of shares</i>	2011	2010
Issued shares at 1 January	42,964	41,042
Effect of own shares held	(436)	(9)
Effect of shares issued	-	11
Weighted average number of shares for the year ended 31 December	42,528	41,044

	Year ended 31 December 2011	Year ended 31 December 2010
Weighted average number of ordinary shares for the year ended 31 December (million of shares)	42,528	41,044
Total profit attributable to holders of ordinary shares	22,348	21,101
Earnings per ordinary share (in RUB) – basic and diluted	0.53	0.51

21 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	31 December 2011	31 December 2010
<i>Non-current liabilities</i>		
Secured loans	37	17
Secured bonds issued	-	5,986
Unsecured loans	159,630	99,336
Unsecured bonds issued	4,558	8,700
Promissory notes	2,811	1,710
Loans from other related parties	60	120
Financial lease liabilities	1,735	4,780
	168,831	120,649
<i>Current liabilities</i>		
Current portion of unsecured loans and bonds	12,037	13,269
Current portion of secured loans and bonds	6,009	384
Unsecured loans	3,839	6,890
Promissory notes	1,583	1,770
Loans from other related parties, including current portion of long-term loans	316	287
Current portion of financial lease liabilities	3,170	4,539
	26,954	27,139

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	31 December 2011		31 December 2010		31 December 2011		31 December 2010	
			Effective interest rate	Effective interest rate	Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
Unsecured loans										
Unsecured bank loans	RUB	2012-2013	8.75%	7.5%	60	60	500	500	500	500
Unsecured bank loans *	RUB	2012-2025	5.3-12.0%	4.9-9.0%	88,243	88,243	47,003	47,003	47,003	47,003
Unsecured bank loans	RUB	2012-2018	7.80-9.75%	7.31-7.85%	17,254	17,254	20,666	20,666	20,666	20,666
Unsecured bank loans*	RUB	2012-2015	7.39-10.10%	7.21-8.80%	27,742	27,742	15,960	15,960	15,960	15,960
Unsecured bank loans	RUB	2013-2014	7.98-9.46%	8%	3,400	3,400	3,810	3,810	3,810	3,810
Unsecured bank loans	RUB	2013-2015	5.97-8.00%	7.6-8.0%	6,139	6,139	7,548	7,548	7,548	7,548
Unsecured bank loans *	RUB	2013-2018	7.11-9.96%	6.95-8.19%	9,697	9,697	4,505	4,505	4,505	4,505
Unsecured bank loans	RUB	2012	7.57%	7.57%	200	200	500	500	500	500
Unsecured bank loans *	RUB	2011-2012	-	8%	-	-	1,000	1,000	1,000	1,000
Unsecured bank loans *	RUB	2012	9.9%	8%	1,500	1,500	1,100	1,100	1,100	1,100
Unsecured bank loans	RUB	2013-2014	7.65-7.92%	7.65-7.92%	2,000	2,000	2,000	2,000	2,000	2,000
Unsecured bank loans *	RUB	2012-2015	7.92-8.5%	8%	6,576	6,576	8,774	8,774	8,774	8,774
Unsecured bank loans	RUB	2016	7.26-7.5%	7.1%	5,394	5,394	800	800	800	800
Unsecured bank loans	RUB	2012-2016	7.65-8.28%	7.65%	1,572	1,572	400	400	400	400
Unsecured bank loans	RUB	2013	9.5%	17%	400	400	80	80	80	80
Unsecured bank loans	RUB	2019	10.05%	-	113	113	113	113	113	113
Unsecured loans *	RUB	2012	0 - 7.8%	0 - 9%	39	39	16	16	16	16
					170,329	170,329	114,662	114,662	114,662	114,662

	Currency	Year of maturity	31 December 2011		31 December 2010		31 December 2011		31 December 2010	
			Effective interest rate	Effective interest rate	Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
Promissory notes										
Promissory notes	RUB	On demand	0%	0%	368	368	368	368	368	368
Promissory notes	RUB	2014	0%	0%	7	7	7	7	7	7
Promissory notes	RUB	2012-2020	10.00%	10.00%	499	499	499	1,021	1,021	1,021
Promissory notes	RUB	2012	0-9%	0-9%	3	3	3	3	3	3
Promissory notes	RUB	2012-2013	9%	9%	947	794	947	2,194	2,081	2,081
Promissory notes	RUB	2013	8.9%	-	2,723	2,723	2,723	-	-	-
					4,547	4,394	4,547	3,593	3,480	3,480
Bonds										
Secured bonds	RUB	2012	8.54%	8.54%	3,000	2,998	3,000	3,000	2,994	2,994
Secured bonds	RUB	2012	8.02%	8.02%	3,000	2,998	3,000	3,000	2,992	2,992
Unsecured bonds	RUB	2014	8.10%	17.50%	4,558	4,558	4,558	6,000	6,000	6,000
Unsecured bonds	RUB	2012	8.70%	8.70%	2,700	2,700	2,700	2,700	2,700	2,700
Unsecured bonds	RUB	2011	-	8.05%	-	-	-	2,357	2,357	2,357
Unsecured bonds	RUB	2012	22-25%	9.30-25.0%	2,477	2,477	2,477	2,477	2,476	2,476
					15,735	15,731	15,735	19,534	19,519	19,519
Financial lease liabilities										
Financial lease liabilities	RUB	2012-2016	8%	8%	5,731	4,905	5,731	12,460	9,319	9,319
Secured loans										
Secured loans					50	50	50	401	401	401
Loans from related parties *										
Loans from related parties *					376	376	376	431	407	407
Total debt					196,768	195,785	196,768	151,081	147,788	147,788

* Loans from government-related entities.

At 31 December 2011 the bank loans in the amount of RUB 50 million (31 December 2010: RUB 52 million) are secured over property, plant and equipment in the amount of RUB 67 million (31 December 2010: RUB 67 million) (see Note 12).

At 31 December 2010 the bank loans in the amount of RUB 3 million are secured over inventories in the amount of RUB 5 million (see Note 16).

At 31 December 2010 the bank loans in the amount of RUB 346 million are secured by third party guarantees.

As at 31 December 2011 the bonds in the amount of RUB 5,996 million (31 December 2010: RUB 5,986 million) are secured by third party guarantees.

The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

For more information about the Group's exposure to interest rate risk, see Note 24.

Financial lease liabilities are payable as follows:

	2011		2010		Present value of minimum lease payments	Present value of minimum lease payments
	Future minimum lease payments	Interest	Future minimum lease payments	Interest		
Less than one year	3,605	(435)	3,170	6,455	(1,916)	4,539
Between one and five years	2,087	(382)	1,705	5,874	(1,192)	4,682
More than five years	39	(9)	30	131	(33)	98
	5,731	(826)	4,905	12,460	(3,141)	9,319

The financial lease liabilities are secured by the leased assets (see Note 12).

22 Employee benefits

The Group has defined benefit pension and other long-term defined benefit plans that cover most full-time and retired employees. Defined post-employment benefits consist of several unfunded plans providing for lump-sum payments upon retirement, financial support for current pensioners, death benefits, jubilee benefits.

(a) Amounts recognised in the Statement of Financial Position are as follows:

	31 December 2011		31 December 2010	
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Total present value of obligations	13,655	750	12,695	1,134
Unrecognised actuarial losses	(2,673)	-	(2,225)	-
Unrecognised past service cost	(2,072)	-	(2,565)	-
Recognised liability for defined benefit obligations	8,910	750	7,905	1,134

(b) Movements in the present value of the defined benefit obligations

	2011		2010	
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Defined benefit obligations at 1 January	12,695	1,134	10,728	697
Benefits paid by the plan	(1,816)	(68)	(1,377)	(55)
Current service costs	766	74	661	51
Interest on obligation	956	92	895	68
Actuarial losses/(gains)	613	(568)	1,716	330
Past service costs	454	86	126	43
Curtailments and settlements	(13)	-	(54)	-
Defined benefit obligations at 31 December	13,655	750	12,695	1,134

(c) Expenses recognised in profit or loss:

	2011		2010	
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Current service costs	766	74	661	51
Interests on obligation	956	92	895	68
Recognised actuarial losses/(gains)	165	(568)	43	330
Recognised past service costs	939	86	436	43
Curtailments and settlements	(5)	-	(54)	-
Total periodical pension cost	2,821	(316)	1,981	492

The above expenses are recognised as Personnel costs in Operating expenses.

Movements in the net liability in the Statement of Financial Position are as follows:

	2011		2010	
	Post employment benefits	Other long- term benefits	Post employment benefits	Other long- term benefits
Recognised liability in the statement of financial position for defined benefit obligations as at 1 January	7,905	1,134	7,301	697
Total periodical pension cost	2,821	(316)	1,981	492
Benefits paid by the plan	(1,816)	(68)	(1,377)	(55)
Recognised liability in statement of financial position for defined benefit obligations as at 31 December	8,910	750	7,905	1,134

(d) Actuarial assumptions

Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages):

	2011	2010
Discount rate at 31 December	8.50%	8.00%
Future salary increases	5.50%	5.50%
Inflation rate	5.50%	5.50%
Average future working life (yrs)	11	10
Mortality table	2002	2002

(e) Experience adjustments

	2011	2011	2009
Total present value of defined benefit obligations	14,405	13,829	11,425
Experience adjustment on defined benefit obligations	807	1,001	1,156

23 Trade and other payables

	<u>31 December 2011</u>	<u>31 December 2010</u>
Non-current accounts payable		
Trade payables	94	132
Other payables and accrued expenses	1,520	1,702
Total financial liabilities	1,614	1,834
Advances from customers	28,467	15,234
	30,081	17,068
Current accounts payable		
Trade payables	70,787	57,656
Interest accrued on loans and borrowings	2,011	1,973
Other payables and accrued expenses	6,453	8,138
Payables to employees	12,287	8,093
Dividends payable	27	76
Total financial liabilities	91,565	75,936
Advances from customers	65,501	85,916
	157,066	161,852
Taxes payable		
Value added tax	1,405	2,205
Property tax	393	373
Social security contributions	1,366	959
Other taxes payable	1,690	1,756
	4,854	5,293
	161,920	167,145

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 24.

24 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management

of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

The Group's risk management policies deal with identifying and analyzing the risks faced by the Group, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its internal policies, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group's Audit Committee oversees how management monitors compliance with the Group's internal control procedures.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected.

The Group does not require collateral in respect of trade and other receivables and other financial assets.

The Group establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables that relate to individually significant exposures.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	31 December 2011	31 December 2010
Promissory notes	6,412	5,165
Loans and receivables	53,516	56,004
Bank deposits, cash and cash equivalents	54,720	32,890
Financial assets related to employee benefit fund	5,476	5,232
	120,124	99,291

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	31 December 2011	31 December 2010
North-West region	5,366	5,502
Central region	21,381	18,394
Ural and Volga region	8,847	6,985
South region	5,962	7,654
Siberian region	6,112	7,235
Other regions	101	117
	<u>47,769</u>	<u>45,887</u>

The Group's ten most significant debtors account for RUB 18,669 million of the trade receivables carrying amount at 31 December 2011 (2010: RUB 17,734 million).

Impairment losses

The aging of receivables at the reporting date was:

	Gross 31 December 2011	Impairment 31 December 2011	Gross 31 December 2010	Impairment 31 December 2010
Not past due	36,875	(1,142)	39,234	(1,857)
Past due less than 3 months	9,552	(1,608)	6,725	(1,412)
Past due more than 3 months and less than 6 months	4,960	(1,833)	6,085	(1,098)
Past due more than 6 months and less than 1 year	6,807	(2,961)	5,173	(2,698)
Past due more than 1 year	18,733	(16,110)	19,690	(13,917)
	<u>76,927</u>	<u>(23,654)</u>	<u>76,907</u>	<u>(20,982)</u>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	31 December 2011	31 December 2010
Balance at 1 January	(20,982)	(17,503)
Increase during the period	(11,121)	(10,574)
Amounts written off against trade and other receivables	4,996	5,102
Decrease due to reversal	3,453	1,993
Balance at 31 December	<u>(23,654)</u>	<u>(20,982)</u>

The allowance accounts in respect of trade and other receivables and bank deposits are used to record impairment losses, unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable and written off against the financial asset directly.

No other financial assets are past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. This approach is used to analyze payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The contractual maturities of financial liabilities presented including estimated interest payments and excluding the impact of netting agreements:

31 December 2011

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	171,297	220,413	23,842	45,846	36,265	60,391	29,779	24,290
Bond issued	16,672	18,076	12,910	368	4,798	-	-	-
Promissory notes	4,922	5,417	2,485	2,932	-	-	-	-
Financial leasing	4,905	5,731	3,605	1,569	289	126	103	39
Trade and other payables	91,168	91,595	89,596	1,400	173	188	32	206
	288,964	341,232	132,438	52,115	41,525	60,705	29,914	24,535
Financial guarantees	-	767	-	-	-	-	-	-

31 December 2010

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	114,879	139,623	24,813	28,205	44,338	7,536	23,211	11,520
Bond issued	21,681	26,975	8,678	10,203	1,047	7,047	-	-
Promissory notes	3,882	4,351	2,453	1,801	97	-	-	-
Financial leasing	9,319	12,460	6,455	4,096	1,521	222	35	131
Trade and other payables	75,797	76,060	74,626	1,104	103	53	98	76
	225,558	259,469	117,025	45,409	47,106	14,858	23,344	11,727
Financial guarantees	-	1,296	-	-	-	-	-	-

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The majority of the Group's revenues and expenditures, assets and liabilities are denominated in RUB, accordingly operating profits are insignificantly impacted by changes in exchange rates.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	Note	31 December 2011		31 December 2010	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables	17	53,516	53,516	56,004	56,004
Available-for-sale financial assets	14	747	747	1,047	1,047
Promissory notes	14	6,412	6,412	5,165	5,165
Bank deposits, cash and cash equivalents	14, 18	54,720	54,720	32,890	32,890
Financial assets related to employee benefit fund	14	5,476	5,476	5,232	5,232
Non-current and current debt	21	(195,785)	(185,180)	(147,788)	(144,133)
Trade and other payables	23	(93,179)	(93,179)	(77,770)	(77,770)
		(168,093)	(157,488)	(125,220)	(121,565)

The basis for determining fair values is disclosed in Note 4.

The interest rate used to discount estimated cash flows for non-current and current debt for determination of fair value as at 31 December 2011 was 10.7% (31 December 2010: 9.8%).

(f) Fair value hierarchy

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

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

'000 RUB	Level 1	Level 2	Level 3	Total
31 December 2011				
Available-for-sale financial assets	747	-	-	747
	747	-	-	747
31 December 2010				
Available-for-sale financial assets	1,047	-	-	1,047
	1,047	-	-	1,047

(g) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity.

Management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries are subject to external capital requirements that require that their net assets as determined in accordance with Russian Accounting Principles must exceed their charter capital at all times.

25 Operating leases

The Group leases a number of land plots owned by local governments under operating leases. In addition, the Group leases non-residential premises and vehicles.

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 5 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

The land title does not pass and the landlord retains control over land usage. The Group determined that substantially all the risks and rewards of the land plots are with the landlord, therefore the leases are considered as operating leases.

Non-cancellable operating lease rentals are payable as follows:

	<u>Year ended 31 December 2011</u>	<u>Year ended 31 December 2010</u>
Less than one year	3,735	4,862
Between one and five years	7,011	6,513
More than five years	30,145	27,256
	<u>40,891</u>	<u>38,631</u>

During the year RUB 6,087 million was recognised in the statement of comprehensive income in respect of operating leases (2010: RUB 7,107 million).

26 Commitments

As at 31 December 2011 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 98,887 million (as at 31 December 2010: RUB 75,900 million).

27 Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group, other than disclosed in Note 27(f) below.

(d) Environmental matters

The Group and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. The Group's management periodically evaluates its 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.

(e) Guarantees

The Group provided the following financial guarantees for loans granted by the following banks to the Group's lessors.

	Amount on contract	Amount on contract
	31 December 2011	31 December 2010
OJSC "Rosbank"	682	1,009
OJSC "Sberbank"	73	198
OJSC "VTB Bank"	10	27
OJSC "Alpha Bank"	2	12
OJSC "Promsvyazbank"	-	50
	767	1,296

(f) Other contingencies

Management believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property by the Group ("last-mile") there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim has individual legal circumstances and respective estimation should be based on variety of assumptions and judgments, which makes it impracticable. As at 31 December 2011 the Group was defendant in "last-mile" lawsuits for the total amount of RUB 11,690 million. Management believes that the outflow of economic benefits under these proceedings is not probable and any provision is not recognised in these consolidated financial statements.

28 Related party transactions

(a) Control relationships

The Russian Government holds the majority of the voting rights of the Company and it is the ultimate controlling party of the Group.

(b) Transactions with associates

The Group had the following significant balances with associates:

	Outstanding balance	Outstanding balance
	31 December 2011	31 December 2010
Accounts receivable	97	1,539
	97	1,539

(c) Management remuneration

The Group identifies members of Boards of Directors, members of Management Boards and top managers of the Company and all its subsidiaries as key management personnel.

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses.

Key management received the following remuneration during the year, which is included in personnel costs:

	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and bonuses	2,610	2,011

Also representatives of key management of the Company participate in the share-option program (see Note 19).

(d) Transactions with government-related entities

In the course of its operating activities the Group is also engaged in significant transactions with government-related entities. Revenues and purchases from government-related entities are measured at regulated tariffs where applicable, in other cases revenues and purchases are measured at normal market prices.

Revenues from government-related entities for the year ended 31 December 2011 constitute 30% (2010: 34%) of total Group revenues, including 32% (2010: 35%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2011 constitute 57% (2010: 53%) of total transmission costs.

Significant loans from government-related entities are disclosed in Note 21.

(e) Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the government.

29 Events after the reporting period

(a) Issuance of additional shares

On 16 April 2012 placement of the additional share issue of the Company (see Note 19) was completed. 4,907,627,335 shares were placed for the amount of RUB 15,115 million paid in cash.

(b) Non-controlling interest

In April 2012 the Company acquired 44,620,505 shares of the additional share issue of its subsidiary JSC “Kubanenergo” (see Note 19) for the amount of RUB 4,616 million under the execution of pre-emptive rights.

On 17 April 2012 the Board of Directors of the Company approved the acquisition of no more than 140,444,830 additional ordinary shares of JSC “Lenenergo” and 26,582,956 additional ordinary shares of JSC “IDGC of North Caucasus” for no more than RUB 2,045 million and RUB 2,460 million, respectively (see Note 19). As at the date these consolidated financial statements were approved for issuance the acquisition of the shares of the subsidiaries has not yet been completed.