



EXPLANATORY NOTE

TO ANNUAL FINANCIAL STATEMENT

OPEN JOINT STOCK COMPANY

FEDERAL GRID COMPANY OF UNIFIED ENERGY SYSTEM

2011

I.	GENERAL.....	3
1.1	Company Information	3
1.2	Main Business Activities.....	4
1.3	Executive and Management Bodies	5
1.4	Separate Business Units of the Company.....	7
II.	ACCOUNTING POLICY	10
2.1	Preparation	10
2.2	Foreign Currency Assets and Liabilities	10
2.3	Short-Term and Long-Term Assets and Liabilities.....	10
2.4	Fixed Assets	11
2.5	Intangible Assets	13
2.6	Research and Development (R&D).....	13
2.7	Inventories.....	13
2.8	Financial Investments Accounting	14
2.9	Prepaid Expenses.....	14
2.10	Accounts Receivable	15
2.11	Charter Capital, Surplus and Reserve.....	15
2.12	Received Loans and Borrowings.....	15
2.13	Incomes and Expenses of Company.....	16
2.14	Estimated Liabilities.....	16
2.15	Correction of Errors	17
2.16	Cash Equivalents and Recording Cash Flows in Cash Flow Statement.....	17
2.17	Changes in Accounting Policy of Company	18
III.	DISCLOSURE OF SIGNIFICANT INDICATORS.....	26
3.1	Capital and reserves	26
3.2	Intangible assets.....	27
3.3	Fixed assets	27
3.4	Other non-current assets	28
3.5	Taxes.....	29
3.6	Research and Development (R&D)	31
3.7.	Long-term Investments	32
3.8	Short-term Financial Investments	37
3.9	Accounts Receivable	38
3.10	Other current and non-current assets.....	43
3.11.	Loans and Credits Received.....	43
3.12.	Accounts Payable	45
3.13.	Other Income and Expenses	47
3.14.	Earnings per Share	48
3.15.	Related Parties.....	49
3.16.	Cash and Cash Equivalents	55
3.17.	Segment Information.....	56
3.18.	Security for Obligations	56
3.19.	Estimated Liabilities, Contingent Liabilities and Contingent Assets	57
3.20.	Post Reporting Events	58

I. GENERAL

1.1 Company Information

Open Joint Stock Company Federal Grid Company of Unified Energy System (hereinafter, “Company”) is incorporated in accordance with the decisions of the Board of Directors of JSC RAO UES of Russia of January 25, 2002 and May 7, 2002 and the decision of the Management Board of JSC RAO UES of Russia of January 21, 2001 subject to Order No. 256 of the Government of the Russian Federation of July 11, 2011 on Restructuring the Energy Industry of the Russian Federation.

The Articles of Association of the Company are approved by order of JSC RAO UES of Russia No. 42p of June 18, 2002 and registered with the Leningrad Regional Registration Chamber, an agency of justice, on June 25, 2002. The amended and restated Articles of Association are approved by the resolution of the General Meeting of Shareholders on June 30, 2009 and registered with District Inspectorate of the Federal Tax Service No. 46 of Moscow.

The location and legal address of the Company: 5A Akademika Tchelomeya St., Moscow, Russia, 117630.

The Company is registered in the Unified Register of Legal Entities. The State Registration Certificate of the Legal Entity confirming registration entry No. 00/03124 is issued by the Leningrad Regional Registration Chamber on June 25, 2002. Re-registration: The Certificate of Record in the Uniform State Register of Legal Entities of a legal entity registered before July 1, 2002 under No. 1024701893336 on August 20, 2002, issued by the Tax Inspectorate of the Ministry of Taxes and Levies of the Tosnensky District, Leningrad Region.

The Company is established for an unlimited term and exists in compliance with the Civil Code of the Russian Federation, Federal Law No. 208-FZ on Joint Stock Companies of December 26, 1995, Federal Law No. 35-FZ on Electric Power Industry of March 26, 2003, other regulatory acts of the Russian Federation and the Articles of Association of the Company.

The Company has solitary property in ownership which is recognized in the Company’s independent balance sheet, may acquire and execute property and personal non-property rights, bear duties and be a plaintiff or defendant in court. The Company may open bank accounts within and outside of the Russian Federation in compliance with the established procedure. The Company is liable for its obligations with all property it owns.

The Company manages the Unified National (All-Russian) Electric Grid (UNEG), which involves uniform technical management and providing UNEG energy transmission services to the energy market participants on contractual basis for valuable consideration.

Subject to Federal Law No. 147-FZ of the Russian Federation of August 17, 1995 on Natural Monopolies, the Federal Energy Commission of the Russian Federation issued Order No. 49-e/1 of June 25, 2003 to include the Company into Section I “Electrical and Thermal Energy Transmission Services” of the Register of Natural Monopoly Entities in the Fuel and Energy Sector under registration No. 47.1.110 on the list of companies subject to the state regulation and control.

As of December 31, 2011, the Government’s stake in the Company’s share capital is 79.48% (79.11% as of December 31, 2010).

The Company’s average staff number in 2011 was 23,332 employees (21,965 in 2010).

The shares of the Company have been listed on the Russian Trading System and the Moscow Interbank Currency Exchange since July 2008.

On June 24, 2008, the Company obtained the permission of the Federal Service for Financial Markets of Russia to offer and trade all of its currently registered issues of ordinary shares outside of the Russian Federation in amount not exceeding 287,269,492,431 ordinary shares.

On June 30, 2008, the Company launched the Global Depository Receipts (GDR) program which were not listed under Regulation S and Rule 144A and certified the rights to the underlying Company’s ordinary shares. The program was developed as part of reorganization of FGC UES and RAO UES of Russia.

One GDR represents 500 ordinary shares of Federal Grid. Deutsche Bank is the Depository Bank of GDR program.

In 2011, the Company carried out technical listing of GDRs on the Main Market of London Stock Exchange. GDRs trading on London Stock Exchange started on March 28, 2011.

As of December 31, 2011, the GDR program accounts for 0.15% of the Company’s charter capital. The total number of ordinary shares covered by the GDR program is 1,864,991,000 equal to 3,729,982 GDRs.

1.2 Main Business Activities

The main objectives of the Company include:

- ensure reliable operation and efficient improvement and development of the UNEG, including isolated energy systems;
- provide energy transmission contractual services via UNEG to wholesale market operators and other entities that have UNEG connectable electrical energy facilities of their own or owned based on other grounds stipulated by the federal laws for value consideration;
- establish conditions for the efficient functioning of the wholesale electrical energy market;
- assist in the efficient management of and control over state-owned power grid facilities;
- pursue government policy in the energy industry;
- maintain efficient operation and centralized technical management of electric grids included in the Unified Energy System of Russia;
- operate and develop telecommunication infrastructure of the energy market;

- implement the unified strategy in investment and fund raising to meet the system challenges of developing the electric grids and the Unified Energy System;

- develop and pursue the research and technical policy and introduce new advanced types of equipment and technologies; and

- generate profit.

The Company may carry out the following activities:

- provide energy transmission and distribution services;

- provide services involving connection to electrical grids;

- provide communications services;

- provide services to collect, transfer and process technical information, including metering and accounting data;

- perform diagnostics, operation, and repairs of electrical grids and other power grid facilities and exercise process control over them;

- conduct diagnosis, operate and repair process communication networks, measurement and metering devices, protection relay equipment, emergency control automatics and other equipment related to operating power grid facilities, as well as equipment intended to control Russia's UES;

- develop long-term forecasts, future and current plans for power grid system development, as well as for targeted integrated research, technical, economic and social programs;

- develop electric grids and other power grid facilities, including design, engineering survey, construction, renovation, technical upgrade, installation and adjustment;

- develop process communication networks, measuring and metering devices, protection relay equipment, emergency control automatics and other process equipment related to operating power grid facilities, as well as equipment designed to control UES of Russia, including design, engineering survey, construction, renovation, upgrading, installation and adjustment;

- carry out foreign economic operations and research and technical cooperation with foreign companies perform operations stipulated in the Company's Articles of Association; and

- to engage in other activities not prohibited by the applicable laws of the Russian Federation to meet the objectives set forth in the Articles of Association.

1.3 Executive and Management Bodies

The Board of Directors of the Company is elected by the resolution of the annual General Meeting of Shareholders on June 29, 2011.

The Board of Directors of the Company as of December 31, 2011

No.	Full Name	Position
1	Ernesto Ferlenghi	Chairman of the Board of Directors of FGC UES, Vice President at Eni SpA, Head of the Representative Office of Eni in the Russian Federation and the CIS
2	Igor Vladimirovich Khvalin	Deputy Chairman of the Board of Directors of FGC UES, Director General of JSC Volga Engineering Group
3	Andrey Borisovich Malyshev	Member of the Management Board, Deputy

No.	Full Name	Position
		Chairman of the Management Board of JSC ROSNANO
4	Boris Ilyich Ayuev	Chairman of the Management Board of JSC SO UES
5	Oleg Mikhailovich Budargin	Chairman of the Management Board at JSC FGC UES
6	Alexey Alexandrovich Makarov	Director of the Energy Research Institute of the Russian Academy of Sciences
7	Dmitry Valeryevich Ponomarev	Chairman of the Management Board of NCP Market Council
8	Yuri Alexeevich Solovyev	First Deputy President – Chairman of the Management Board of JSC VTB Bank
9	Rashid Ravelevich Sharipov	Deputy Director General of Limited Liability Company KFK-Consult
10	Kirill Yurievich Levin	Deputy Chairman of the Management Board of Open Joint Stock Company Rosselkhozbank
11	Denis Vladimirovich Fedorov	General Director at LLC Gazpromenergoholding; General Director at LLC Centerenergoholding

The following changes were made to the composition of the Board of Directors by the annual General Meeting of Shareholders on June 26, 2011:

- elected: Kirill Yurievich Levin and Denis Vladimirovich Fedorov;
- dismissed: Sergey Ivanovich Shmatko and Georgiy Petrovich Kutovoy.

The Management Board of the Company as of December 31, 2011

No.	Full Name	Position
1	Oleg Mikhailovich Budargin	Chairman of the Management Board
2	Valery Nikolaevich Chistyakov	First Deputy Chairman of the Management Board
3	Andrey Vladimirovich Cherezov	Deputy Chairman of the Management Board
4	Roman Nikolaevich Berdnikov	Deputy Chairman of the Management Board
5	Dmitry Mikhailovich Gurevich	Deputy Chairman of the Management Board
6	Andrey Valentinovich Kazachenkov	Deputy Chairman of the Management Board
7	Yuri Nikolaevich Mangarov	Deputy Chairman of the Management Board
8	Evgeny Nikolaevich Zhuykov	General Director at Company's branch MEG of Urals
9	Samuil Misseyevich Zilberman	General Director at MEG of Siberia

The following members were elected to the Management Board in 2011 by the resolution of the Board of Directors: Andrey Vladimirovich Cherezov, Deputy Chairman of the Management Board of JSC FGC UES, Samuil Moiseevich Zilberman, General Director at MEG of Siberia; and the following members were dismissed: Dmitry Alexandrovich Troshenkov, First Deputy Chairman of the Management Board, Alexander Mikhailovich Bobrov, First Deputy Chairman of the Management Board, Dmitry Borisovich Gvozdev, Deputy Chairman of the Management Board and Chief Engineer, and Pavel Vitalyevich Romanov, member of the Management Board.

The Audit Commission of the Company as of December 31, 2011

No.	Full Name	Position
1	Alexander Yevgenievich Ganin	Deputy Department Director at the Ministry of Energy of Russia
2	Victor Yurievich Lebedev	Deputy Department Director at the Ministry of Economic Development and Trade
3	Andrey Sergeyeovich Kolyada	Chief Expert of the Management Department at Rosimushestvo
4	Vladimir Vladimirovich Raspopov	Head of Management Department at the Federal Property Management Agency (Rosimushestvo)
5	Maria Gennadyevna Tikhonova	Department Director at the Ministry of Energy of the Russian Federation

The following changes were made to the Audit Commission of the Company in 2011:

- The following members were elected to the Audit Commission by the resolution of the General Meeting of Shareholders on June 29, 2011: Alexander Yevgenievich Ganin and Victor Yurievich Lebedev; and the following members were dismissed: Dmitry Mikhailovich Gorevoy and Anna Valeryevna Drokova.

1.4 Separate Business Units of the Company

The Company has a special feature affecting the selection of accounting methods:

- separate business units which are recognized in the separate balance sheet and have current and operating bank accounts; and
- separate business units which have current and operating bank accounts.

All Company units are grouped by their areas of operations and geographic regions.

The separate business units have no legal entity status; they are provided with Company's assets and operate in compliance with:

- Regulations on Separate Business Units; and
- other internal corporate documents approved by the Company.

Separate business units by location:

- perform part of Company's responsibilities determined by their production facilities to the extent set forth by the law of the Russian Federation and internal corporate documents of the Company;
- collect, process and provide information required for Company's normal operation; and
- perform any other work and functions incidental to the goals and objectives of the Company and in accordance with the resolutions of Company's management bodies.

Branches of the Company as of December 31, 2011:

1. JSC FGC UES branch - Backbone electric grids of Centre;
2. JSC FGC UES branch - Backbone electric grids of North-West;
3. JSC FGC UES branch - Backbone electric grids of Volga;
4. JSC FGC UES branch - Backbone electric grids of South;
5. JSC FGC UES branch - Backbone electric grids of Ural;

6. JSC FGC UES branch - Backbone electric grids of Siberia;
7. JSC FGC UES branch - Backbone electric grids of East;
8. JSC FGC UES branch - Nizhny Novgorod enterprise of backbone electric grids;
9. JSC FGC UES branch - Black Earth region enterprise of backbone electric grids;
10. JSC FGC UES branch - Volga-Oka enterprise of backbone electric grids;
11. JSC FGC UES branch - Volga-Don enterprise of backbone electric grids;
12. JSC FGC UES branch - Vologda enterprise of backbone electric grids;
13. JSC FGC UES branch - Oka River region enterprise of backbone electric grids;
14. JSC FGC UES branch - Moscow enterprise of backbone electric grids;
15. JSC FGC UES branch - Upper-Don Region enterprise of backbone electric grids;
16. JSC FGC UES branch - Valdai enterprise of backbone electric grids;
17. JSC FGC UES branch - Amur enterprise of backbone electric grids;
18. JSC FGC UES branch - Khabarovsk enterprise of backbone electric grids;
19. JSC FGC UES branch - Primorski enterprise of backbone electric grids;
20. JSC FGC UES branch - Krasnoyarsk enterprise of backbone electric grids;
21. JSC FGC UES branch - Trans-Baikal enterprise of backbone electric grids;
22. JSC FGC UES branch - Kuzbass enterprise of backbone electric grids;
23. JSC FGC UES branch - Omsk enterprise of backbone electric grids;
24. JSC FGC UES branch - West-Siberian enterprise of backbone electric grids;
25. JSC FGC UES branch - Khakass enterprise of backbone electric grids;
26. JSC FGC UES branch - Sverdlovsk enterprise of backbone electric grids;
27. JSC FGC UES branch - South-Uralian enterprise of backbone electric grids;
28. JSC FGC UES branch - Perm enterprise of backbone electric grids;
29. JSC FGC UES branch - Mid-Volga Region enterprise of backbone electric grids;
30. JSC FGC UES branch - Lower Volga Region enterprise of backbone electric grids;
31. JSC FGC UES branch - Stavropol enterprise of backbone electric grids;
32. JSC FGC UES branch - Kuban enterprise of backbone electric grids;
33. JSC FGC UES branch - Rostov enterprise of backbone electric grids;
34. JSC FGC UES branch - Bryansk enterprise of backbone electric grids;
35. JSC FGC UES branch - Vyborg enterprise of backbone electric grids;
36. JSC FGC UES branch - Novgorod enterprise of backbone electric grids;
37. JSC FGC UES branch - Karelian enterprise of backbone electric grids;
38. JSC FGC UES branch - Specialized production base "Bely Rast";
39. JSC FGC UES branch - Backbone electric grids of Western Siberia;
40. JSC FGC UES branch - Leningrad enterprise of backbone electric grids;
41. JSC FGC UES branch - Tomsk enterprise of backbone electric grids;
42. JSC FGC UES branch - Caspian enterprise of backbone electric grids;
43. JSC FGC UES branch – North enterprise of backbone electric grids;

44. JSC FGC UES branch – Orenburg enterprise of backbone electric grids;
45. JSC FGC UES branch – Sochi subsidiary of backbone electric grids;
46. JSC FGC UES branch – Samara subsidiary of backbone electric grids;
47. JSC FGC UES branch – Central subsidiary of backbone electric grids;
48. JSC FGC UES branch – South subsidiary of backbone electric grids;
49. JSC FGC UES branch – East subsidiary of backbone electric grids;
50. JSC FGC UES branch – Yamalo-Nenetsk subsidiary of backbone electric grids.

The branches of the Company are recognized in separate balance sheets.

II. ACCOUNTING POLICY

The Financial Statement of the Company is prepared on the basis of the following accounting policy.

2.1 Preparation

The Company's accounting policy has been developed in accordance with the applicable Russian Accounting Standards, in particular, Federal Law No. 129-FZ of the Russian Federation of November 21, 1996 on Accounting, Accounting Regulations on Accounting Principles of Organizations, RAS 1/2008, approved by Order of the Ministry of Finance No. 106n of October 6, 2008, Regulations on Accounting Records and Financial Statements in the Russian Federation approved by Order of the Ministry of Finance No. 34n of July 29, 1998 and Accounting Regulations on Financial Statements of Organization, RAS 4/99, approved by Order No. 43n of July 6, 1999 of the Ministry of Finance.

2.2 Foreign Currency Assets and Liabilities

Foreign currency business transactions are recognized at the official exchange rate of RUR/e applicable on the date of transaction. The value of Company's cash, bank accounts (bank deposits), cash and payment items, securities (other than shares), accounts payable, including debentures (other than advance payments made and received and prepaid funds) denominated in foreign currency is recorded in the financial statements as amounts estimated on the basis of the official currency exchange rates applicable as of December 31, 2011. Exchange rates as of December 31, 2011: RUR 32.1961 to US\$1 (RUR30.4769 as of December 31, 2010) and RUR 41.6714 to €1 (RUR40.3331 as of December 31, 2010).

Any exchange rate differences arising during the year on foreign currency asset and liabilities transactions and on revaluations as of the reporting date are recognized as other incomes and expenses in financial results.

2.3 Short-Term and Long-Term Assets and Liabilities

Financial investments, accounts receivable and accounts payable, including outstanding loans and borrowings, are recorded in the balance sheet as short-term, if their maturity period is less than 12 months. Other types of the above assets and liabilities are recorded as long-term.

Interest on long-term financial investments, extended long-term loans and borrowings and obtained long-term loans and borrowings are recorded in the Balance Sheet in Line 1235 Accounts Receivable (payments expected within 12 months after the reporting date) and Line 1510 Borrowed Funds. Advance payments on investment in non-current assets are recorded as non-current assets in Line 1173.

2.4 Fixed Assets

Fixed assets include land, buildings, machines, equipment, vehicles and other relevant facilities with lifetime less than 12 months used by the Company in production, work and services or for any management needs.

Fixed assets are recognized in the financial statements at their initial (replacement) value less depreciation amounts accrued during the total operation period.

The fixed asset facilities valued less than RUR 40,000 per unit are expensed by depreciation in amount of their initial value as they are released into production or operation. Fixed assets commissioned before December 31, 2007 with the initial value per unit of RUR 10,000-20,000 and commissioned from January 1, 2008 to December 31, 2010 with the initial value of RUR 20,000-40,000 are expensed as production (production costs) by straight-line method of depreciation within their remaining lifetime.

Purchased books, booklets and other print media are not recognized as fixed assets in accounting. Their costs are recorded as expenses of the reporting period when such purchase is made. The Company generates no library fund.

The Company applies the straight-line method of depreciation of fixed assets based on their useful life. The Company defines useful life of fixed assets on the basis of classification of the fixed assets included in the depreciation groups approved by Order No. 1 of the Russian Federation Government of January 1, 2002 on Classification of Fixed Assets Included in Depreciation Groups.

Fixed Asset Group	Useful Life (years)
Buildings	5-35
Structures and transmission devices	10-40
Machines and equipment	2-25
Vehicles	8-20
Production and utility stock	2-15

No depreciation is accrued on the following:

- land;
- residential premises acquired before January 1, 2006 (such premises acquired after January 1, 2006 are depreciated according to the general applicable procedure); and
- fully depreciated assets kept on the balance sheet.

If some fixed assets are not included in such Classification, their useful life for accounting purposes shall be defined on the basis of expert evaluations made by Company's technical specialists in accordance with technical conditions as follows:

- based on the expected lifetime of such asset and in accordance with its expected performance and capacity;
- based on the expected wear and tear depending on operating mode, natural conditions and aggressive environment effects and repairs and maintenance system; and
- any legal and other restrictions on the use of such assets.

Useful life of any acquired second-hand fixed assets is defined as follows:

- based on their useful life defined as set forth above reduced by the number of months when such asset was operated by the previous owner; and
- if it is impossible to define the useful life as set forth above, the commission shall independently define the useful life of such fixed asset with a view to safety requirements and other factors.

The completed real estate facilities actually put in operation but not registered with the state are subject to depreciation. Such assets are depreciated in accordance with the procedure set forth for fixed assets. The accrued depreciation amount is adjusted in recording such projects as fixed assets for accounting purposes upon their state registration. The 2011 financial statement records such projects as fixed assets (balance sheet line 1130) net of accrued depreciation.

The Company shall carry out annual revaluation of the current (replacement) value of fixed assets. Such revaluation shall be made in accordance with the regulatory documents on the groups of similar fixed assets based on their current (replacement) value. Currently, the following fixed asset groups are subject to revaluation: industrial buildings and structures, including substation buildings, transmission lines and high-voltage equipment at substations.

The fixed assets value recognized for accounting purposes shall not be subject to any changes, except for completion, refitting, renovation, upgrading, technical modernization, partial liquidation and any other similar reasons and revaluation.

Completion, refitting and upgrading shall include work resulting from any changes in technical or business purposes of equipment, buildings, structures or any other depreciated fixed asset items or increased load and/or any other new features.

Renovation shall include upgrading of the existing fixed assets related to any improvements in production or enhancing its technical and economic performance or carried out under the project for fixed asset renovation to expand production facilities, improve quality and change the product range.

Technical modernization shall involve efforts to improve technical and economic performance of fixed assets and their separate items based on advanced equipment, technologies, mechanization and automatization of production and replacement of obsolete and worn equipment with new and efficient one.

Incomes and expenses from fixed assets disposal are recorded in the profit and loss statement as other incomes and expenses.

The cost of maintenance repair and overhaul of fixed assets is recorded in the profit and loss statement as other incomes and expenses.

The costs of maintenance repair and overhaul of fixed assets are recognized as general expenses in the reporting period when such costs were incurred.

The leased fixed assets are recorded off-balance-sheet at value specified in lease agreements.

2.5 Intangible Assets

Intangible assets shall be amortized using straight-line method on the basis of their established useful life.

Amortization charges on intangible are recognized for accounting purposes by their accumulation on a separate account.

Intangible assets are recognized in financial statements at their initial value net of amortization amounts accumulated during the whole lifetime.

Intangible Asset Group	Useful Life (years)
Software copyrights	2-5
Inventions and know-how	5-20
Trademarks	10

2.6 Research and Development (R&D)

The costs of research and development are written off on a straight-line basis during the established write-off period. The Company shall independently define the write-off period for R&D costs based on the expected useful life of the R&D outcomes when the Company may generate economic benefits but not exceeding 5 years. R&D generating positive outcomes which write-off period exceeds one year is recognized in the balance sheet as Other Non-Current Assets. If R&D gives no positive results, such costs are recognized as other expenses in the reporting period.

2.7 Inventories

Inventories are recognized at the actual cost of their purchase (procurement).

Inventories are recorded on account 15, Procurement and Purchase of Inventories and account 16, Deviations in Inventories Value.

The goods purchased for sale are evaluated at the actual cost of their purchase.

Inventories and goods released in production or disposed otherwise are evaluated within the unit recognized in a separate balance sheet using moving average inventory method.

Special clothing, special tools, special devices and equipment are recognized as inventories regardless of their useful life.

The cost of special clothing with the useful life less than 12 months as defined in accordance with their distribution standards is charged to expenses at the date of their provision (distribution) to Company's employees.

The cost of special clothing with the useful life exceeding 12 months as defined in accordance with their distribution standards is repaid on a straight-line basis beginning from the month following the month of provision based on the useful life of such special clothing set forth in the standard sector requirements to free distribution of special clothing, special footwear and other individual protective gear and in the Rules for Providing Special Clothing, Special Footwear and other Individual Protective Gear to Employees approved by Order No. 51 of December 18, 1998 of the Ministry of Labour and Social Development and any other internal documents of the Company.

2.8 Financial Investments Accounting

Financial investments are accounted at their initial value.

Financial investments with undefined current market value are recorded in financial accounting and financial statements as of the reporting date at their initial value. The Company shall carry out evaluation of the impairment of financial investments once a year as of December 31 of the reporting year. In case of sustained impairment of financial investments, the Company shall generate provisions for impairment losses in amount of the difference between their book value and estimated or calculate value. The provisions for impairment of financial investments are shown in the profit and loss statement as other expenses. The financial statement records the value of financial investments with undefined market value and provisions for impairment at their book value net of the provision amount.

The financial investments with the current market value defined on the established basis are shown in the financial statement as of the reporting end-of-year at the current market value by adjustment of their estimate as of the previous reporting date. The current market value of financial investments at the reporting date is estimated on the basis of data provided by the Moscow Interbank Currency Exchange (MICEX).

The Company shall make the above adjustments once a year.

The difference between the initial value and nominal value of the debt securities with undefined current market value within their circulation period shall be equally charged by the Company against profit and loss in proportion to income payable under their issue terms. The discount on bills “at sight and no earlier” purchased before January 1, 2009 is defined using accrual method based on the expected maturity which is equal to the number of days from the date of purchase to the “no earlier” date plus 365 (366) days. The discount on bills “at sight and no earlier” purchased after December 1, 2009 is defined using accrual method based on the expected maturity equal to the number of days from the date of purchase to the “no earlier” date.

If case of disposal of assets accounted as financial investments with defined current market value, their value is defined by the Company on the basis of their last evaluation. If no revaluation of such financial investments is made from the date of their purchase as of their disposal date, their value shall be defined by FIFO method.

2.9 Prepaid Expenses

Any costs incurred by the Company in the reporting period related to the next reporting periods shall be written-off on a straight-line basis during the period to which they refer. The write-off period is defined on the basis of the expected period for profit generation (income).

Prepaid expenses with less than 12 months write-off period are shown in the balance sheet in Line 1260 Other Current Assets and those which write-off period exceeds 12 months are shown in Line 1174, Other Non-Current Assets.

2.10 Accounts Receivable

Liabilities of buyers and customers are defined at prices set forth in agreements between the Company and such buyers (customers) including all discounts (extra charges) set by the Company and VAT.

The Company shall create the provision for bad debts for valid recoding of accounts receivable.

The amount of provision for bad debts shall be defined on the basis of accounts receivable evaluation on the last day of the quarter and with a view to the date of such accounts receivable related to goods, work and services sold. The accrual method of provisions for bad debts of any other debtors and advance payments depends on the awareness of management of their counterparties' solvency and the established practice of debt collection.

The costs incurred in making provisions for bad debts are recorded as other expenses and the reversal on the previously accrued provision is shown as other incomes.

2.11 Charter Capital, Surplus and Reserve

The Company's charter capital consists of the total nominal value of ordinary shares. The Company placed ordinary registered non-documentary shares with the nominal value of fifty (50) kopecks each share in the number of one trillion two hundred fifty five billion nine hundred forty eight million one hundred twenty eight thousand three hundred and ninety three (1,255,948,128,393) for the total amount of six hundred twenty seven billion nine hundred seventy four million and sixty four thousand (RUR 627,974,064).

In accordance with the law, the Company has created the reserve fund of five (5) percent of its charter capital. The amount of annual charges to the reserve fund is at least five (5) percent of the Company's net profit until the reserve fund reaches the established amount.

2.12 Received Loans and Borrowings

On the loans and borrowings received, the Company converts long-term debt into short-term one. The Company makes such conversion of long-term debt into short-term debt on the date 365 days before the principal amount becomes due under the loan agreement.

The Company shall record the nominal value of its issued and sold bonds as accounts payable. The interest on bonds is recorded as accounts payable on bonds sold, including interest due thereon at the end of the reporting period.

Additional costs incurred by the Company in obtaining loans, issuing and offering debt securities are shown as other expenses in the period when they were incurred.

Interest on obtained loans shall be distributed between the investment asset value and current expenses as set forth in the internal regulatory documents of the Company. For valid recording of Company's asset value, all interests on bonds and bills are also charged against the investment asset value.

2.13 Incomes and Expenses of Company

Revenues from sales of goods, products, works and services are recognized so far as such goods, products, works and services are sold.

Revenues are shown in the financial statement net of the value added tax, customs charges and discounts granted to buyers.

Incomes from property lease are recognized by the Company as general incomes. Incomes related to leasing rights arising from patents to inventions, industrial design and other intellectual property are recorded as other incomes.

Other incomes of the Company shall include:

- revenues from sale of fixed assets, bills and other assets;
- interests received from leasing Company's funds, interests from the use by the bank of Company's funds deposited on the account in such bank, and interest on the acquired interest-bearing and non-interest bearing notes of any third parties. The Company shall record such incomes in the profit and loss statement, Line 2320, Interest Receivable;
- reversal on provisions; and
- other incomes.

Company's expenses shall be broken down into general expenses and other expenses.

General expenses are recognized in the reporting period when they were incurred regardless of their actual payment.

General expenses of the separate units are recorded as operating costs without separating management expenses.

Property lease expenses are recognized as general expenses.

Management expenses are fully accounted in the reporting period without distribution by types of operations.

Other expenses of the Company include:

- expenses related to the disposal and other write-off of fixed assets, promissory notes and other assets;
- provision for bad debts;
- losses of previous years recognized in the reporting year; and
- other expenses.

2.14 Estimated Liabilities

The Company shall recognize estimated liabilities, provided simultaneous compliance with the requirements set forth in RAS 8/2010 "Estimated Liabilities, Contingent Liabilities and Contingent Assets."

The Company shall record its estimated vacation pay liability to pay out annual (basic and additional) unused employees' leaves. The amount of the estimated vacation pay liability for unused employees' leaves at the end of the reporting period is defined on the basis of the number of unused leave days of each employee as of the reporting date. The vacation pay liability shall include Company's liabilities to pay insurance premiums which result in reduced economic benefits of the Company, if any circumstances arise, such as granting vacation to an employee or payment of compensation for unused vacation. If the actual expenses on vacation payment during the reporting period exceed the amount of the provision for vacation bonus payment, the excess amount is charged against current expenses.

The Company shall calculate the estimated annual vacation pay liability (basic and additional vacation) and recognize it for accounting purposes in accordance with the Methods approved by the Company.

2.15 Correction of Errors

Any error shall be deemed material, if such error independently or together with any other errors in the same reporting period may affect users' financial decisions made on the basis of the financial statement prepared for such reporting period.

The correction of errors and the procedure for disclosing information on such errors made in accounting reports and financial statements and the scope of effects of such errors on users' financial decisions shall be defined by Accounting Director/Head of Accounting Department (Chief Accountant) in accordance with Accounting Regulations RAS 22/201 "Correction of Errors in Accounting Reports and Financial Statements".

2.16 Cash Equivalents and Recording Cash Flows in Cash Flow Statement

Cash equivalents include highly liquid financial investments which are convertible into a known amount of money and which are exposed to negligible risk of value change.

The Company qualifies short-term bank sight deposits as cash equivalents. Depositing and repayment of money on term deposits shall be recorded recognized in the cash flow statement in full detail.

The amount of foreign currency cash flows is converted into RURles at the official exchange rate of the relevant currency established by the Central Bank of Russia at the date of making or receiving such payment. The difference arising out of such cash flow conversion and cash balances and their equivalents denominated in foreign currency is recorded in Line "Changes in Currency Exchange Rates to RURle" at the exchange rates on the date of foreign currency transactions and the reporting dates.

The relevant transactions made by the Company are summarized in the cash flow statement:

- payments on and receipts from transactions related to acquisition of the above financial investments for their further resale;

- VAT amounts received from buyers and customers, payments to suppliers and contractors and budget payments and their VAT related repayments; and

- receipts from buyers subject to transfer to principals (if the Company acts as an agent).

2.17 Changes in Accounting Policy of Company

Changes in Accounting Policy in 2011

In 2011, the Company introduced a provision on the procedure to acknowledge and correct errors made in financial statements in accordance with Order No. 63n of June 28, 2010 of the Ministry of Finance of the Russian Federation concerning the approval of the accounting regulations on the Correction of Errors in Accounting Reports and Financial Statements (RAS 22/2010).

Order No. 186n of December 24, 2010 of the Ministry of Finance of the Russian Federation introduced changes in the accounting regulations which became effective from 2011 and resulted in changes made to the Company's Accounting Policy for 2011. The above changes caused the Company to update its accounting data for the previous reporting periods in the 2011 annual financial statement which are set forth in the relevant section of this Explanatory Note.

From 2011, all actually operated completed real estate projects not applied for the state registration are recognized as fixed assets. Before 2011, no such projects which documents were not submitted for the state registration of ownership rights could be recorded as fixed assets.

From 2011, the revaluation of fixed assets and intangible assets is recorded as of the end of the reporting period; before 2011, such revaluation was made as of January 1 of the year following the reporting year.

From 2011, the amount of fixed assets write-down refers to other expenses. The amount of assets write-down is charged against surplus reduction arising from revaluation amounts of such asset made in the previous reporting periods. The excess amount of asset write-down over its revaluation charged against surplus due to revaluation made in the previous periods is recorded as other expenses. The amount of asset revaluation equal to asset write-down made in the previous reporting periods and recorded as other expenses is recognized as other incomes. Before 2011, the above write-down and revaluation was recorded as retained earnings (uncovered loss).

From 2011, the provision prohibiting revaluation of land and environmental facilities is cancelled (Clause 43 of Guidelines on Fixed Asset Accounting approved by Order No. 91n of October 13, 2003 of the Ministry of Finance of the Russian Federation.) Such amendment had no material effect on Company's financial statements.

The amendments include changes in the value of assets charged to costs by their depreciation in amount of their initial value, from RUR 20,000 to RUR 40,000.

From 2011, the Company records its estimated liability to pay annual (basic and additional) vacations unused by employees.

Order No. 66n of July 2, 2010 of the Ministry of Finance of the Russian Federation on Financial Statement Forms of Companies becomes applicable to the 2011 financial statements. Due to differences

in showing accounting data in the accounting forms under the above Order and the accounting forms for 2010 (under Order No. 67n of July 22, 2003 of the Ministry of Finance), some accounting values for the reporting period will be shown as comparative data in the 2011 financial statement relative to other accounting items (see changes in showing accounting data in the financial statement forms below, sections A-E).

Amendments to Financial Statement Forms

Order No. 66n of the Ministry of Finance contemplates amendments to the financial statement forms aimed at transferring data from such statements to comments thereto:

- reference to assets recognized on off-balance accounts is excluded from the balance sheet form;
- breakdown of specific profits and losses is excluded from the profit and loss statement;
- Section 2 Provisions is excluded from the capital statement; and
- data shown in the Appendix to the balance sheet (Form No. 5) are recorded as reference tables in the explanatory note.

A. Amendments to Balance Sheet

Balance sheet data shall be recorded as of three reporting dates (December 31 of the reporting period, the previous year and the year preceding the previous year.)

- the R&D results are taken from Line “Other Non-Current Assets” to a separate line (section “Non-Current Assets”);
- the amount of non-current assets revaluation is taken from Line “Surplus” to a separate balance sheet line (section “Capital and Reserves”); and
- provisions for contingent liabilities are taken from Line “Other Long-Term Liabilities” to a separate line (section “Long-Term Liabilities”).

B. Amendments to Profit and Loss Statement

The profit and loss statement added the following reference data: “Non-Current Asset Revaluation Result not Included in the Net Profit (Loss) for the Period”, “Other Transactions Result not Included in the Net Profit (Loss) for the Period” and “Aggregate Financial Result for the Period”.

C. Amendments to Equity Statement

Section 1 “Capital Flow” is amended as follows:

- to include items: incomes/expenses directly related to capital increase/decrease, surplus changes, changes in reserves and property revaluation;
- to include item “Own Shares Acquired from Shareholders”;
- to exclude the following data in-between reporting periods: “Changes in Accounting Policy” and “Fixed Asset Revaluation Results”. Changes in Accounting Policy shall be included in Section 2 of the Capital Statement “Updates Related to Changes in Accounting Policy and Correction of Errors”. Revaluation results shall be recorded in section 1, Line “Assets Revaluation” for the relevant revaluation period; and

- net asset value shall be recorded at three reporting dates.

The statement included section 2 “Updates Related to Changes in Accounting Policy and Correction of Errors” which includes information on capital value before updates and updates resulting from changes in the accounting policy and error correction in terms of capital items (retained earnings (uncovered loss) and other capital items.)

D. Amendments to Cash Flow Statement

- receipts from sale of goods, products, works and services and receipts from lease payments, license fees, commission fees and remuneration are shown separately;
- funds allocated for dividend payment are transferred from the current operations section to financial operations section of the cash flow statement;
- interest paid by the Company on loans included in the investment asset value is recorded in the investment transaction flows. Before 2011, such interest was included in current transaction flows;
- cash flows on financial investments acquired for short-term resale are recorded as current transaction flows. Before 2011, the above cash flows were recorded as investment transactions;
- cash flows are not broken down if they show operations of Company’s counterparties rather than Company’s operations or when receipts from one person cause payments to another;
- cash flows are not broken down, if they are characterized with quick return, large amounts and short repayment term. Before 2011, they were shown in full detail;
- indirect taxes received from buyers and customers, included in payments to suppliers and contractors and budget payments or budget refunds are not broken down. Before 2011, such cash flows were recorded as actual receipts (payments) and included indirect tax amounts in the relevant lines of the cash flow statement;
- the following data are not included in the cash flow statement:
 - a) cash receipts from cash equivalent repayment (other than accrued interest);
 - b) currency exchange transactions (other than transaction losses or benefits);
 - c) exchange of cash equivalents (except for losses or benefits from such transactions);
 - d) other similar payments and receipts which change the composition of cash funds and cash equivalents without changing their aggregate amount;
- cash flow statement shall include cash flows in amount of accrued interest (a) and transaction losses and benefits (b+c);
- from 2011, if any cash flows cannot be explicitly qualified as one or another cash flow type (form investment or financial transactions), they shall be recorded as cash flows on current transactions.

Other changes in 2011 accounting policy of the Company have a qualifying nature and do not affect the evaluation of accounting items.

Changes in Accounting Policy in 2012

In 2012, there are changes in accounting of fixed assets which are subject to the state registration under the laws of the Russian Federation and which involve completed capital investments, registered construction, technical and the relevant initial acceptance documents but which ownership rights are not yet registered as established by law. Such projects shall be recorded as fixed assets as established by law. The Company shall ensure separate analytical accounting of such projects on account 01 Fixed Assets. Before 2012, such projects were separately recognized on account 08 Investment in Non-Current Assets.

2.18 Data of Previous Accounting Periods

Financial statements for 2011 are made up on forms recommended by Order № 66 issued by the Ministry of Finance of the Russian Federation.

Adjustments to the data of previous accounting periods, owing to changes in the accounting policy for 2011, are due to the introduction of new regulations and changes to existing regulations on accounting.

Separate column indicators "As of December 31, 2010" and "As of December 31, 2009," of the balance sheet, as well as the figures of other forms of financial statements are formed taking into account adjustments in connection with the following circumstances:

1. Based on a report of an independent appraiser, the Company conducted a revaluation of fixed assets as of the beginning of the year (as of 01.01.2011). The revaluation had also been made as of 01.01.2010 and 01.01.2009. Owing to the changes made to the existing accounting regulations, the Statements in regards to the date of making revaluation of fixed assets and the procedure of accounting treatment of their revaluation results were altered in 2011. The revaluation results as of 01.01.2011 are included in the figures of the Company's financial statements as of 31.12.2010 (adjustment № 1).
2. In the 2011 statements, due to changes in the Company's accounting policy, actually operated real estate facilities of completed construction, on which documents have not been submitted for state registration, are reflected in fixed assets in the financial statements (adjustment № 2).
3. In 2011, advances on investment assets listed by suppliers and contractors are recorded in non-current assets (adjustment № 3).
4. In 2011, the item "Prepaid expenses" is reflected on the line "Other current assets" (adjustment № 4).
5. Changes in the Company's accounting policy as to accounting treatment of estimated liabilities, contingent liabilities and contingent assets have necessitated the adjustment of relevant indicators in 2009 and 2010 (adjustment № 5).
6. The property tax is accounted for in the management costs. Previously, the mentioned tax was recorded in other expenses (adjustment № 6).
7. Other taxes are included in the prime cost. Previously, these taxes were included in other expenses (adjustment № 7).

Adjustments to the 2009 and 2010 figures in the form of annual financial statements for 2011:

RUR thousand

Line code	Name of line	Amount before adjustment	Number of adjustment	Adjustment	Adjusted amount
Adjustments to 2009 figures					
1130	Capital assets	237 753 751	2	5 241 196	242 994 947
1172	Investments in non-current assets	198 044 770	2	(5 241 196)	192 803 574
1173	Advances on fixed assets	-	3	64 359 812	64 359 812
1100	Total for Section 1	524 065 068	2, 3	64 359 812	588 424 880
1210	Inventories	2 427 514	4	(135 366)	2 292 148
1235	Accounts receivable (payments expected within 12 months)	117 170 891	3	(64 359 812)	52 811 079
1260	Other current assets	-	4	135 366	135 366
1200	Total for Section 2	222 601 884	3, 4	(64 359 812)	158 242 072
1370	Retained earnings (uncovered loss)	(68 870 025)	5	(181 838)	(69 051 863)
1300	Total for Section 3	665 617 484	5	(181 838)	665 435 646
1540	Estimated liabilities	-	5	181 838	181 838
1500	Total for Section 5	73 609 306		181 838	73 791 144
3600	Net assets	665 895 803	5	181 838	665 713 965
Adjustments to 2010 figures					
1130	Fixed assets	236 193 167	1, 2	39 870 294	276 063 461
1172	Investments in non-current assets	280 738 169	2	(9 306 219)	271 431 950
1173	Advances on fixed assets	-	3	95 800 659	95 800 659
1100	Total for Section 1	640 787 056	1, 2, 3	126 364 734	767 151 790
1210	Inventories	4 632 226	4	(194 748)	4 437 478
1235	Accounts receivable (payments expected within 12 months)	157 647 614	3	(95 800 659)	61 846 955
1260	Other current assets	-	4	194 748	194 748
1200	Total for Section 2	230 758 882	2, 4	(95 800 659)	134 958 223

Line code	Name of line	Amount before adjustment	Number of adjustment	Adjustment	Adjusted amount
)	
1340	Revaluation of non-current assets	115 598 477	1	31 495 746	147 094 223
1370	Retained earnings (uncovered loss)	(10 496 556)	1,5	(1 187 912)	(11 684 468)
1300	Total for Section 3	763 883 795	1, 5	30 307 834	794 191 629
1540	Estimated liabilities	-	5	256 241	256 241
1500	Total for Section 5	54 994 253	5	256 241	55 250 494
2120	Cost of sales	(75 518 397)	5, 7	(161 642)	(75 680 039)
2220	Management expenses	(6 209 146)	6	(611 499)	(6 820 645)
2340	Other income	142 534 195	1	2 372 691	144 906 886
2350	Other expenses	(109 157 601)	1, 6, 7	(2 605 624)	(111 763 225)
2411	Constant tax liabilities	3 184 752	1, 5	(201 215)	2 983 537
2400	Net profit	58 088 388	1, 5	(1 006 074)	57 082 314
2900	Basic earnings (loss) per share	0, 0476	1,5	(0,0015)	0, 0461
3600	Net assets	764 162 111	1,5	30 307 834	794 469 945

In 2011, payables to participants (founders) for income payment are reflected in line 1520 "Accounts payable". Until 2011 this debt stood out as a separate line in the balance.

Due to the changes in presentation of cash receipts and payments in the cash flow statement (elimination of indirect taxes from proceeds of consumers and customers and payments to suppliers and contractors), adjustments to comparative data of the 2010 cash flow statement were made.

Significant adjustments are as follows:

RUR thousand

Line code	Name of line	Amount before adjustment	Adjustment	Adjusted amount
4111	Received from the sale of products, goods, work and services	132 652 206	(20 211 576)	112 440 630
4112	Rent payments, license fees,	536 657	(81 863)	454 794

Line code	Name of line	Amount before adjustment	Adjustment	Adjusted amount
	royalties			
4119	Other proceeds	12 996 693	(8 500 258)	4 496 435
4121	(Channeled) to pay for goods, work and services	(38 168 553)	6 154 995	(32 013 558)
4129	Other payments	(11 269 693)	(1 349 982)	(12 619 675)
4100	Balance of cash flows from current operations	75 908 317	(23 988 684)	51 919 633
4211	Proceeds from the sale of non-current assets (except for financial investments)	1 111 437	(169 541)	941 896
4219	Other income from investment operations	492 432	(201)	492 231
4221	(Channeled) to acquire fixed assets	(167 831 053)	24 883 186	(142 947 867)
4224	Interest payments on debt liabilities included in the value of an investment asset	-	(724 760)	(724 760)
4200	Balance of cash flows from investment operations	(129 615 952)	23 988 684	(105 627 268)

III. DISCLOSURE OF SIGNIFICANT INDICATORS

3.1 Capital and reserves

As of 31.12.2011, the Company's charter capital amounts to RUR 627,974,064 (six hundred twenty-seven billion nine hundred seventy-four million sixty-four) thousand, and consists of 1 255 948 128 393 (one hundred trillion fifty-five billion nine hundred forty-eight million one hundred and twenty-eight thousand three hundred and ninety-three) ordinary registered non-documentary shares with a nominal value of 50 cents each. As of 31.12.2009, 31.12.2010 and 31.12.2011, the Company's charter capital is registered in the prescribed manner and fully paid.

In the shareholders' register, as of 31.12.2011, 79.48% of the Company's shares are owned by the Russian Federation in the name of the Federal Agency for State Property Management. 20.52% of the Company's outstanding shares are owned by minority shareholders.

On 01.03.2011, a securities issue statement was registered. In fact, 22,386,794,841 (twenty two billion three hundred eighty-six million seven hundred and ninety-four thousand eight hundred forty-one) shares were placed amounting to RUR 11,193,397 thousand with a nominal value of fifty (50) cents each.

On 27.09.2011, the placing of additional issue that was registered on 09.09.2011 started. The number of ordinary registered non-documentary shares amounts to 10,321,601,853 (ten billion three hundred twenty-one million six hundred and one thousand eight hundred fifty-three) shares with a nominal value of 50 cents each, totaling RUR 5,160,801 thousand. The Company's shareholders have the preemptive right to acquire additional shares by a public subscription in the amount proportional to the number of their ordinary registered shares.

Additional paid-in capital (without revaluation) is formed by:

RUR thousand

Item	As of 31.12.2011	As of 31.12.2010	As of 31.12.2009
The amount of additional paid-in capitals of affiliated companies in the reorganization	21 316 409	21 316 409	21 316 409
Share premium	10 501 227	10 501 227	10 346 873
VAT on fixed assets, taken as a contribution to the charter capital	49 527	49 527	49 527
Total	31 867 163	31 867 163	31 712 809

Revaluation of fixed assets was made on the basis of a report of an independent appraiser.

According to the results of the 2011, there was a loss of RUR 2,468,359 thousand. According to the results of the 2010, net profit amounted to RUR 58,088,388 (57,082,314 in retrospect).

3.2 Intangible assets

RUR thousand

Intangible assets	31.12.2011	31.12.2010	31.12.2009
System software for Automated Information and Measuring Commercial Electric Power Accounting System	428 670	-	-
Automated Accounting and Reporting System (software package)	124 729	274 403	424 078
Automatic Asset Management System	55 461	110 922	166 383
Automatic Maintenance and Repair Management System	43 581	80 936	118 291
Information-Analytical Accounting and Energy Calculation System	30 099	47 298	64 498
Automated Planning and Budgeting system	16 864	28 769	40 673
Automated Document Management System	15 018	29 030	44 853
"AMS-Salary" Corporate Information System	10 773	21 546	32 319
Corporate Information Human Resource Management System	8 143	16 287	24 430
"Anchor Metal Head Wall of Reinforced-Concrete Foundation" Utility Model	7 385	8 358	-
"KPI-Motivation" Information System	6 990	13 979	20 969
"Interim Support for Overhead Electric Line" Utility Model	6 179	6 928	-
Technological Information Mode Service System	5 527	10 263	15 000
Corporate Information and Analytical System	2 503	8 509	14 515
NSI System	2 202	4 844	7 486
EPK KSUPR database	-	110 600	231 256
EPK KSUPR software	-	46 057	96 302
Automated Information and Measuring Commercial Electric Power Accounting System	-	38 579	77 579
Intranet Portal JSC UES FGC	-	5 323	-
Other	41 229	54 994	17 625
Total intangible assets	805 353	917 625	1 396 257

During the year, useful lives and depreciation method of intangible assets have not changed from the previous reporting year.

The useful life for intangible assets is 4-5 years.

The impairment test of intangible assets has not been held due to lack of evidence of impairment.

As of the balance sheet date, included in intangible assets are facilities whose value is fully repaid. The information on these objects is shown in Section 1.3 of the Explanatory Note to the Balance Sheet and Profit and Loss Report. These objects are not written off, as the Company continues to use them in their activities.

3.3 Fixed assets

As of December 31, 2011, the Company revalued, based at current replacement cost, determined by an independent appraiser, the following groups of fixed assets: industrial

buildings and structures, including substation buildings, transmission lines and high voltage equipment of substations.

Revaluation of these facilities in 2011 amounted to RUR 51,619,515 thousand (in 2010 – RUR 30,564,075 thousand, in 2009 – RUR 86,150,081 thousand), including:

- Revaluation surplus, charged to additional capital - RUR 53,187,098 thousand (in 2010 – RUR 31,495,746 thousand, in 2009 – RUR 88,209,715 thousand)
- Revaluation surplus, in part of previously held markdown charged to other income - RUR 679 687 thousand (in 2010 - RUR 2,372,691 thousand, in 2009 – RUR 3,150,014 thousand)
- Markdown charged to other expenses – RUR 2,247,270 thousand (in 2010 – RUR 3,304,362 thousand, in 2009 – RUR 5,209,648 thousand).

Fixed assets are stated at depreciated cost in the balance sheet.

Gains and losses on disposal of fixed assets are reflected in the income statement within other income and expenses.

The Company does not conduct separate accounting of real estate facilities that have been put into operation and are in the process of state registration.

3.4 Other non-current assets

Investments in non-current assets, line 1172

	RUR thousand		
Type of investments in non-current assets	31.12.2011	31.12.2010	31.12.2009
Design and survey work, procurement and construction of fixed assets	272 169 681	265 614 011	187 974 776
Procurement and creation of intangible assets	4 904 885	4 861 225	4 151 602
Expenditure on R&D in progress	2 398 849	956 714	677 196
Total investment in non-current assets	279 473 415	271 431 950	192 803 574

Information on R & D facilities in progress and incomplete acquisitions of intangible assets is given in Section 1.5 of notes to the balance sheet and profit and loss report.

The costs of design and exploration work, procurement and construction of non-current assets are registered in the following major divisions of the Company:

	RUR thousand		
Division	31.12.2011	31.12.2010	31.12.2009
Executive body	2 051 607	2 351 148	1 412 044
Backbone power grids of the Central Region	70 135 034	66 741 657	53 375 738
Backbone power grids of North-West	39 774 266	41 746 177	27 194 493
Backbone power grids of the Volga Region	17 929 060	10 072 440	4 593 484
Backbone power grids of the South Region	41 958 733	53 344 884	37 637 502

Backbone power grids of the Urals Region	14 202 497	17 430 765	16 109 786
Backbone power grids of Western Siberia	28 550 357	33 855 532	25 686 820
Backbone power grids of Siberia	26 596 528	19 198 641	10 584 763
Backbone power grids of East	30 971 599	20 618 323	10 824 045
Elektrosetservis	-	254 443	556 101
Total for all divisions	272 169 681	265 614 011	187 974 776

3.5 Taxes

As of 31.12.2011, in the sum of value added tax, the long-term portion is RUR 197,737 thousand (31.12.2010 – RUR 250 659 thousand, 31.12.2009 - RUR 311 729 thousand), and is the VAT on construction and installation, and design and survey work until 2005, which will be reimbursed from the budget at the time of putting the assets in progress into operation.

According to tax records, formed in accordance with the requirements of Chapter 25, "Corporate income tax" of the Tax Code of the Russian Federation, the taxable income for 2011 amounted to RUR 41,947,680 thousand; in 2010, the above figure was RUR 46,321,530 thousand.

Profit before tax for accounting purposes is linked to the current income tax as follows:

Item	RUR thousand	
	2011	2010
Profit (loss) before tax	11 444 414	67 312 449
Contingent expenses (profit) on income tax of 20%	(2 288 884)	(13 462 490)
Permanent tax (liability) asset	(11 599 306)	2 983 537
Deferred tax asset	(46 160)	33 442
Deferred tax liability	5 544 814	1 181 205
Current income tax	(8 389 536)	(9 264 306)

This year, the amount of permanent differences which affected the adjustment to contingent expenses on income tax for the purpose of determining the income tax, calculated according to tax records (current income tax) amounted to RUR 57,996,528 thousand (in 2010 – RUR 14,917,685 thousand). These permanent differences are due to differences in the recognition of the following income and expenses in accounting and taxation:

2011

Income	RUR thousand	
	Income	Permanent tax asset
Proceeds from the sale of securities	78 613 929	15 722 786
Income in the form of recovered provisions for doubtful accounts	8 424 051	1 684 810
Revaluation gains of shares	2 892 412	578 482
Income on restoration of fixed assets markdown	679 687	135 938
Income on restoration of provision for inventory impairment	661 177	132 235
Other income	282 677	56 536
Total income	91 553 933	18 310 787

Expenses	Expenses	Permanent tax liability
Purchase price of securities sold	79 139 884	15 827 977
Negative difference from revaluation of securities	24 822 899	4 964 580
Transfers to provisions for doubtful debts	18 665 933	3 733 187
Depreciation of fixed assets	18 437 906	3 687 581
Expenses from devaluation of fixed assets	2 247 270	449 454
Provision for impairment	1 590 849	318 170
Cost of retired assets under construction	661 136	132 227
Other expenses	3 984 584	796 917
Total expenses	149 550 461	29 910 093

2010

RUR thousand

Income	Income	Permanent tax asset
Revaluation gains of shares	30 024 928	6 004 986
Income in the form of recovered provisions for doubtful accounts	20 803 483	4 160 696
Income on restoration of fixed assets markdown	2 372 691	474 538
Other income	394 804	78 961
Total income	53 595 906	10 719 181
Expenses	Expenses	Permanent tax liability
Expenses in the form of provision for securities impairment and for doubtful receivables	17 949 877	3 589 975
Depreciation of fixed assets	15 052 911	3 010 582
Costs of fixed assets devaluation	3 304 362	660 872
Other expenses	1 483 151	296 631
Securities sale	887 920	177 584
Total expenses	38 678 221	7 735 644

Other constant tax liabilities include constant tax liabilities for charitable contributions, financial aid, social costs, corporate events, etc.

The difference in periods of income and expenses recognition for accounting purposes, on the one hand, and for tax purposes of income tax, on the other hand, gives rise to timing differences. Most of the timing differences are due to a different order of depreciation for tax and accounting purposes.

RUR thousand

Type of deferred tax asset	2011	2010
Estimated liability for holidays	29 522	-
Fixed assets	17 713	(43 483)

Loss on sale of fixed assets	(1 036)	10 235
Other	(39)	(194)
Total	46 160	(33 442)

RUR thousand		
Type of deferred tax liability	2011	2010
Fixed assets	4 446 175	1 146 684
Interest on financial loans	1 065 504	-
Other deferred tax liabilities	33 135	34 521
Total	5 544 814	1 181 205

Assets and liabilities for deferred income tax at the end of the period are determined by the rate of 20% as of 31.12.2011 and 31.12.2010

In the balance sheet, line 1420 "Deferred tax liabilities", a consolidated (folded) amount of a deferred tax asset and a deferred tax liability is reflected.

RUR thousand			
Item	31.12.2011	31.12.2010	31.12.2009
Deferred tax asset	568 752	522 592	556 034
Deferred tax liability	(8 717 117)	(3 172 303)	(1 991 098)
Total line 1420 "Deferred tax liabilities"	(8 148 365)	(2 649 711)	(1 435 064)

Accrued amounts of other taxes and fees are included in expenses from ordinary activities in the amount of RUR 887,030 thousand in 2010 – RUR 700 989 thousand). The following types of taxes and fees are charged to expenses from ordinary activities:

- Property tax – RUR 795 415 thousand (in 2010 – RUR 611 499 thousand);
- Motor vehicle tax – RUR 23 314 (in 2010 – RUR 20 283 thousand);
- Other taxes and fees – RUR 68 301 thousand (in 2010 – RUR 69 207 thousand).

3.6 Research and Development (R&D)

In 2011, the expenses from ordinary activities included costs of R & D used in current operations, amounting to RUR 201,868 thousand (in 2010 – RUR 171 873 thousand), which is reflected in line 5140 of notes to the balance and PL statement. As of 31.12.2011, the balance of completed R&D is reflected in line 1120 "The results of research and development" of the balance and amounts to RUR 187 016 thousand (31.12.2010 – RUR 255 247 thousand , 31.12.2009 – RUR 73 805 thousand).

3.7. Long-term Investments

The structure of the long-term investments is represented by the following Company's assets.

	RUR thousand		
Assets	31.12.2011	31.12.2010	31.12.2009
Equity investments, including	70 746 437	94 899 702	66 197 973
Contributions to subsidiaries	16 605 758	18 124 226	18 221 649
Contributions to dependent companies	343 473	67 711 261	40 681 668
Contributions to other organizations	53 794 037	9 061 046	7 291 487
Other equity long-term investments	3 169	3 169	3 169
Debt investments, including	11 300 958	9 237 845	772 414
Debt securities	11 296 206	8 935 682	469 301
Loans granted	4 752	302 163	303 113
Total investments	82 047 395	104 137 547	66 970 387

3.7.1. Contributions to subsidiaries, dependent companies and other organizations

In line 1150 "Investments" of non-current assets of the balance the following contributions to subsidiaries, dependent companies and other organizations are itemized:

Name of SDCs and other organizations	31.12.2011		31.12.2010		31.12.2009		Type of activity	Notes
	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %		
Subsidiaries:	16 605 758		18 124 226		18 221 649			
JSC Mobile Gas Turbine Electric Stations (OJSC MGTES)	9 271 056	100,00%	10 594 257	100,00%	10 594 257	100,00%	Power generation	Provision accrued
JSC S&T Elektroenergetika	3 895 820	100,00%	3 895 820	100,00%	3 895 820	100,00%	R&D	
OJSC Specialized Power Network Service Company UNEG	953 804	100,00%	953 804	100,00%	953 804	100,00%	Power grid facilities maintenance and repair services	
JSC Tomsk Transmission Network»	616 411	52,025%	866 424	52,03%	866 424	52,03%	Forecasting and analytical services in the electric energy industry	Provision accrued
JSC Construction Management and Engineering Center	833 000	100%	833 000	100,00%	833 000	100,00%	Acting as a tenant builder - customer in capital construction, renovation and modernization of power grid facilities	
JSC OES GruzRosenergo	763 227	50%	763 227	50,00%	763 227	50,00%	Electricity transmission services	
JSC ESSK	206 252	100%	133 870	100,00%	133 870	100,00%	Procurement of energy sector	Provision accrued
JSC Uts Energetiki	38 434	100%	55 071	100,00%	55 071	100,00%	Electronic & digital technology	Provision accrued
OJSC MUS Energetiki	19 997	100%	19 997	100,00%	19 997	100,00%	Communication services	
JSC Chitatekhenergo	4 092	100,00%	4 092	100,00%	4 092	100,00%	Construction, design, repair and maintenance of energy facilities	
CJSC APBE	3 500	100,00%	3 500	100,00%	3 500	100,00%	Information	

Name of SDCs and other organizations	31.12.2011		31.12.2010		31.12.2009		Type of activity	Notes
	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %		
							technology services	
JSC Main Power Grid Service Company	-	100,00%	1 000	100,00%	1 000	100,00%	Power grid facilities maintenance and repair services	Provision accrued
JSC GVC Energetiki	163	50,00%	163	50,00%	163	50,00%	Forecasting and analytical services in the electric energy industry	
JSC RINPKenergo	1	100,00%	1	100,00%	1	100,00%	R&D	
JSC Nurenergo	-	76,99%	-	77,00%	-	77,00%	Power generation	Provision accrued
JSC Volgaenergostonabkomplekt	-	100,00%	-	100,00%	-	100,00%	Delivery of materials and equipment	Provision accrued
JSC Tsentr Energetiki	-	-	-	-	97 423	98,56%	R&D	Shares sold in 2010
LLC Index of Energy-FGC UES»	-	100%	-	100,00%	-	100,00%	Sales of securities	Provision accrued
Dependent:	343 473		67 711 261		40 681 668			
JSC OGGK-1 (*)	-	-	21 851 019	40,17%	13 164 371	40,17%	Thermal and electric energy generation	Market value of shares
JSC Volzhskaya TGK (TGK-7) (*)	-	-	20 066 560	29,99 %	13 262 806	32,14%	Thermal and electric energy generation	Market value of shares
JSC Bashkirenergo (*)	-	-	15 456 189	21,27%	7 143 138	21,27%	Generation, transmission and sale of thermal and electric energy	Market value of shares
JSC TGK-6 (*)	-	-	7 291 153	23,58%	4 304 329	23,58%	Thermal and electric energy generation	Market value of shares
JSC TGK-11 (*)	-	-	2 702 867	27,45%	2 463 551	27,45%	Thermal and electric energy generation	Market value of shares
Lld IT Energy Service	198 360	39,99%	198 360	39,99%	198 360	39,99%	Information technology services	
JSC Kuban Backbone Network	134 139	48,99%	134 139	48,99%	134 139	48,99%	Electric energy transmission services	
JSC Severovostokenergo	9 800	49,00%	9 800	49,00%	9 800	49,00%	Generation and sale of thermal and electric energy	
JSC ENIN	1 024	38,24%	1 024	38,24%	1 024	38,24%	R&D	
JSC EnergoTekhKomplekt	100	48,99%	100	49,00%	100	49,00%	Delivery of materials and equipment	
JSC UEUK	50	33,33%	50	33,33%	50	33,33%	Agency services	
JSC Schekinskie PGU	-	-	-	45,21%	-	45,21%	Power industry facilities construction and technical reconstruction services	Provision accrued, in 2011 was eliminated
Other organizations:	53 794 037		9 061 046		7 291 487			
JSC Inter RAO UES	53 791 030	15,12%	-	-	-	-	Cross-border power supply management	Market value of shares
JSC Testing Stand of the Ivanovo State District Power Plant	3 000	0,83%	3 000	0,83%	3 000	0,83%	Electric equipment installation and commissioning services	
JSC Tsentrenergoholding	6	0,013%	6	Less than 0,01%	6	Less than 0,01%	Holding companies management activities	
CJSC Energorynok	1	8,50%	1	8,50%	1	8,50%	Publishing and printing services	

Name of SDCs and other organizations	31.12.2011		31.12.2010		31.12.2009		Type of activity	Notes
	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %	Book value, RUR ths, (adjusted for reserve)	Share in the charter capital, %		
JSC OGGK-6 (*)	-	-	4 422 284	9,60%	2 317 319	9,60%	Thermal and electric energy generation and transmission	Market value of shares
JSC Mosenergo (*)	-	-	4 311 255	3,37%	4 419 858	3,37%	Thermal and electric energy generation	Market value of shares
OJSC Sangtudinskaya HPP-1 (*)	-	-	316 473	14,48%	551 256	14,48%	Electric energy generation	Paid Reserve
JSC Rusgidro (*)	-	-	3 859	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC OGGK-4 (*)	-	-	1 736	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC OGGK-2 (*)	-	-	514	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC TGK-1 (*)	-	-	470	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC OGGK-3 (*)	-	-	401	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC Fortum (*)	-	-	238	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC TGK-9 (*)	-	-	186	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC Kuzbassenergo (*)	-	-	160	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC Quadra – generating company (*)	-	-	147	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC TGK-13 (*)	-	-	129	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC TGK-2 (*)	-	-	63	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
TGK-11 Holding (*)	-	-	54	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC Natsnenergo	-	-	40	1,90%	40	1,90%	Wholesale	
JSC TGK-14 (*)	-	-	23	Less than 0,01%	-	-	Thermal and electric energy generation	Market value of shares
JSC Sibenergoholding	-	-	-	-	6	Less than 0,01%	Holding company management activities	
JSC Intergeneratsia	-	-	6	Less than 0,01%	-	-	Holding company management activities	
CJSC SOVASATOM	-	-	1	3,38%	1	3,38%	Energy facility construction and commissioning	
JSC Trest SVES	-	-	-	-	-	6,14%	Design and construction of industrial facilities	Provision accrued in 2009, in 2010 shares written off
Other long-term equity investments	3 169		3 169		3 169			
Total:	70 746 437		94 899 702		66 197 973			

Notes:

(*) These shares were included in the payment for JSC Inter RAO UES shares.

In March 2011, the Company acquired OJSC Inter RAO UES shares totaling RUR 78,297,454 thousand. Payment for shares was held by non-cash. The shares were paid by generating companies' equity stakes amounting to RUR 78,297,454 thousand. In May 2011, the Company acquired an additional stake of OJSC Inter RAO UES shares amounting to RUR 316,475 thousand. OJSC Sangtuda-1 shares were transferred in payment for the equity stake.

As of 31.12.2011, 31.12.2010 and 31.12.2009, other long-term equity investments include investments in joint ventures in the amount of RUR 3169 thousand.

As of 31.12.2011, on the Company's balance are financial investments in shares that have been traded on the stock exchange during 2011. As of 31.12.2011, the above investments are reflected in the balance at current market value. The value of losses from changes in the current market value in 2011 amounted to RUR 24,822,899 thousand.

The Company has made a feature analysis of steady reduction in value of investments, on which the current market value fails to be determined. The analysis took into account the change in net asset value of companies within two years. The Company established a provision for impairment of equity investments in the amount of RUR 1,590,849 thousand, and reflected it in other expenses (in 2010 – RUR 234 782 thousand, 2009 – RUR 3,502,596 thousand). In 2011, equity investments being retired, a RUR 2,820,031 thousand provision was restored and reflected in other income. The cost of the retired financial investments was included in other expenses (in 2009, a RUR 499 thousand provision was used in writing off investments to OJSC Trest SVES).

As of 31.12.2011, 31.12.2010 and 31.12.2009, a provision for impairment of investments was as follows:

	RUR thousand		
Issuer	31.12.2011	31.12.2010	31.12.2009
JSC MGTES	4 847 955	3 524 756	3 524 756
JSC Nurenergo	1 972 781	1 972 781	1 972 781
JSC Tomsk Transmission Network	250 013	-	-
JSC Uts Energetiki	16 637	-	-
Ltd Energy Index	10 000	10 000	10 000
JSC Main Power Grid Service Company	1 000	-	-
JSC Volgaenergostonabkomplekt	369	369	369
JSC Sangtudinskaya HPP-1	-	2 714 096	2 479 314
JSC Schekinskie PGU	-	105 935	105 935
JSC ESSK	-	72 381	72 381
JSC Trest SVES	-	-	499
Total provision for impairment of investments	7 098 755	8 400 318	8 166 035

The entire amount of the provision for impairment of investments, as of 31.12.2011, relates to the SDCs and amounts to RUR 7098755 thousand (31.12.2010 – RUR 5,686,222 thousand, 31.12.2009 – RUR 5686 222 thousand).

The initial cost of long-term investments in equity investments, in relation to which a provision is established, as of 31.12.2011 amounts to RUR 17,024,655 thousand, as of 31.12.2010 – RUR 19,444,919 thousand, as of 31.12.2009 – RUR 19 445 418 thousand .

There were no negative trends that might cause impairment of other equity stakes.

3.7.2. Debt securities

Promissory notes of the following companies are discounted in the debt securities:

RUR thousand

Issuer	31.12.2011	31.12.2010	31.12.2009	Maturity	Annual rate,%
Ltd Energo-finance	8 540 125	8 466 382	-	December 2014	Discount-interest
JSC MPSK Yuga	2 723 000	-	-	June 2013	8.9%
JSC Alfa-Bank	33 081	-	-	September 2013	Discount
JSC SO-CDA UES	-	469 300	469 300	December 2012	7%
Total debt securities	11 296 206	8 935 682	469 300		

Promissory notes of JSC Energo-finance with maturity in December 2014 are recorded in the accounting, as of 31.12.2011 and 31.12.2010, net of provision for impairment of investments in the amount of RUR 3,618,652 thousand.

3.7.3. Loans Granted and Other Long-term Financial Investments

As of 31.12.2011, the Company's employee loan of RUR 4,752 thousand (RUR 5,702 thousand as of 31.12.2010, RUR 6,652 thousand as of 31.12.2009) is recognized in loans granted. As of 31.12.2010 and 31.12.2009, the loan of RUR 296,461 thousand granted to JSC Dagenengo was recognized in loans granted. In 2011, the above loan was reclassified as short-term loan.

The Company intends to hold all long-term debt investments to maturity.

3.8 Short-term Financial Investments

Short-term financial investments include the following assets of the Company:

	RUR, thousand		
Asset	31.12.2011	31.12.2010	31.12.2009
Short-term promissory notes	20,522,741	42,356,353	44,190,554
Loans granted	1,034,132	887,671	887,671
Other short-term financial investments	5,000,000	3,000,000	24,049,500
Total short-term financial investments	26,556,873	46,244,024	69,127,725

3.8.1. Short-term Promissory Notes

As of 31.12.2011, 31.12.2010 and 31.12.2009, short-term notes include the notes of the following companies:

	RUR, thousand			
Issuer Name	31.12.2011	31.12.2010	31.12.2009	Annual rate, %
JSC Gazprombank	14,039,826	-	-	discount
JSC Promsvyazbank	3,013,615	3,001,649	-	discount
JSC Bank Rossiya	2,000,000	4,000,000	-	8.30%
JSC Bank Saint Petersburg	1,000,000	-	-	8.50%
JSC SO UES	469,300	-	-	7.00%
JSC VTB Bank	-	19,232,142	43,925,294	discount
JSC Alfa-Bank	-	14,122,562	-	discount
JSC CB International Finance Club	-	2,000,000	-	6.25%
JSC Glavsetservis UNEG	-	-	150,000	14.00%
JSC GVC Energetiki (*)	-	-	60,000	17.00%
JSC Caustic	-	-	55,260	15.00%
Total short-term promissory notes	20,522,741	42,356,353	44,190,554	

Notes:

(*) A provision of RUR 60,000 thousand was accrued in 2010. At the balance sheet date, the promissory notes are held by the Company.

3.8.2. Loans Granted and Other Short-term Financial Investments

As of 31.12.2011, the loan of RUR 737,671 thousand (RUR 887,671 thousand as of 31.12.2010 and 31.12.2009) granted to JSC Kuban backbone electric grids is recorded in loans granted. The loan of

RUR 296,461 thousand granted to backbone electric grids Dagenargo was also reclassified from long-term loans to short-term debts.

The Company's balance shows a loan of RUR 501,300 thousand granted to JSC Nurenergo. The above loan is overdue as at the balance sheet date. The Company has not entered into any agreements for extension of the contract. As of 31.12.2011, the provision for impairment which was accrued in 2006 is RUR 501,300 thousand.

Other financial investments include Sberbank deposit of RUR 5,000,000 thousand (as of 31.12.2011) maturing in January 2012, Nomos-Bank deposit of RUR 3,000,000 thousand (as of 31.12.2010) maturing on 5.16.2011, and Gazprombank deposits of RUR 24,049,500 thousand (as of 31.12.2009). Each financial investment on its disposal in 2011 was measured at initial value.

The Company intends to hold all short-term debt investments to maturity.

3.9 Accounts Receivable

Information on disclosure of accounts receivable is given in Section 5.1 "Availability and change in accounts receivable" in the form of tabular notes to the balance sheet and profit and loss statement.

Amounts of accounts receivable in the columns "As a result of transactions (amount due from transaction, operation)", "Interest, penalties and other charges due", "Paid" and "Written-Off as Profit or Loss" of Section 5.1 of the notes are recorded taking into account the receivables received and repayed (written off) in the same reporting period.

Breakdown of Line 1173 "Advance payments for non-current assets":

Item	RUR, thousand		
	31.12.2011	31.12.2010	31.12.2009
Advance payments to construction companies, including	83,665,006	95,800,659	64,359,812
CJSC Engineering and Construction Company Soyuz-Seti	11,894,064	12,088,291	10,222,420
Ltd Engineering Center Energo	7,934,890	8,073,117	10,948,010
CJS GlobalElektroServis	6,516,561	6,442,645	47,776
CJS Stroytransgas	4,781,859	10,356,852	-
Ltd Rusengineering	4,564,225	4,417,096	7,152,448
CJS Energostroy-M.N.	4,329,268	77,385	1,757,057
CJSC EFESk	4,154,588	3,583,805	147,724
Ltd New Engineering Company	2,762,875	4,724,672	6,228,713
Ltd Stroytechnocontact	2,187,531	3,599,121	4,702,678
Ltd Interspetsystroy	2,165,613	1,370,456	1,580,863
Ltd Stroytekhproyekt-P	2,103,061	1,830,988	-
Ltd Velsstroy	1,906,979	3,599,117	-
CJS IC UES	1,904,948	2,437,898	-
Ltd ASSET MANAGEMENT COMPANY	1,634,308	2,933,779	3,185,297
Ltd Project Center Energo	1,328,026	3,638,263	2,181,658
Ltd Slavyanskaya Power Grid Company	1,180,364	-	-
Ltd Petrocom	1,048,406	893,114	-
Ltd Promstroy	950,891	1,607,897	48,356
Ltd ESK Energomost	905,743	1,310,359	-
Ltd Uralektrostroy	895,011	2,275,684	104,770
CJSC Intertekhelektro	679,036	1,005,227	1,257,617

Item	31.12.2011	31.12.2010	31.12.2009
CJS MKSM	538,289	1,657,815	-
Ltd Upravleniye Stroitelnykh Rabot	448,441	430,226	1,072,922
CJS Hidroelektromontazh	210,609	1,083,101	971,381
Ltd Torsion-Telecom	3,251	55,026	1,923,114
Ltd StroyremServis	-	1,168,336	-
Other	16,636,169	15,140,389	10,827,008

Receivables on advances for non-current assets are recorded including provision on bad debts, which was RUR 1,324,583 thousand as of 31.12.2011, RUR 3,951,474 thousand as of 31.12.2010 and RUR 1,631,885 thousand as of 31.12.2009.

Of the total amount of advance payments to subsidiaries and affiliates, the debt is RUR 2,198,414 thousand as of 31.12.2011, RUR 1,222,306 thousand as of 31.12.2010 and RUR 432,707 thousand as of 31.12.2009. The provision is RUR 2,835 thousand as of 31.12.2011. No provision was established for the above amounts as of 31.12.2010 and 31.12.2009. Information on related parties is disclosed in Section 3.15 of the Explanatory Notes.

Breakdown of Line 1231 "Long-term accounts receivable" of the balance is given in the following table:

Item	31.12.2011	31.12.2010	31.12.2009
Trade receivable of buyers and customers	2,658	68,106	185,910
JSC Irkutskenergo	-	65,334	185,910
Other receivables	2,658	2,772	-
Advance payments	-	-	36
Other long-term accounts receivable	8,099,699	8,628,143	20,306,873
Non-interest promissory notes, including	4,466,576	2,688,794	17,012,281
JSC Alfa-Bank	1,367,844	494,676	9,259
JSC SO UES	1,113,719	-	-
JSC Ulyanovskenergo	736,559	738,195	740,240
JSC AKB Rosbank	483,485	483,485	483,485
JSC AKB Eurofinance Mosnarbank	311,495	311,495	311,495
JSC IDGC of Centre and Volga Region	185,176	229,127	229,127
JSC AKB Investbank	173,903	173,903	-
Ltd ENERGO-finance	-	-	12,022,099
JSC MGTES	-	-	3,000,000
Other non-interest promissory notes	94,395	257,913	216,576
Other receivables, including	3,633,123	5,939,349	3,294,592
Ltd ENERGO-finance	3,013,419	-	-
JSC Kuban Trunk Grids	362,544	5,683,517	2,966,855
JSC Streletskaya Sloboda	83,986	83,986	83,986
Other	173,174	171,846	243,751
Total long-term accounts receivable	8,102,357	8,696,249	20,492,819

Long-term accounts receivable as of 31.12.2011 include:

- Non-interest promissory notes in the amount of RUR 3,983,091 thousand maturing in 2013 - 2026;
- Non-interest promissory note of JSC AKB Rosbank in the amount of RUR 483,485 thousand maturing in 2015;

Other receivables refer to the contracts with a maturity of over 12 months after the balance sheet date. Information on related parties is disclosed in Section 3.15 of the Explanatory Notes.

Breakdown of Line 1236 “Trade receivables of buyers and customers” of the balance is given in the following table:

RUR, thousand

Debtor	31.12.2011	31.12.2010	31.12.2009
JSC IDGC of Siberia	1,861,442	1,080,083	1,105,393
JSC Lenenergo	1,018,169	390,132	259,366
JSC Tyumenenergo	995,340	871,007	694,141
JSC Moscow United Electric Grid Company	802,934	638,634	425,727
JSC IDGC of Centre and Volga Region	757,835	727,837	580,957
JSC Far Eastern Distribution Grid Company	736,391	133,388	257,965
JSC IDGC of Ural	724,991	418,653	375,919
JSC IDGC of Volga	724,663	-	-
JSC Kubanenergo	661,214	855,216	674,235
JSC IDGC of North-West	471,024	528,933	419,697
JSC IDGC of the South	385,018	1,425,109	959,555
JSC IDGC of Centre	249,980	60,017	610,106
JSC IDGC of North Caucasus	183,381	278,408	5,604
JSC Pervouralsk New Pipe Plant	124,614	-	-
JSC RUSAL Krasnoyarsk	100,814	-	-
CJSC RES	33,840	76,510	490,603
JSC RUSAL Novokuznetsk	23,151	-	112,932
JSC Chelyabinsk Metallurgical Plant	17,887	469,682	-
JSC Glavsetservis UNEG	440	290	1,085,949
Other (less than RUR 100 mln each)	987,021	715,742	891,264
Total account receivable of buyers and customers	10,860,149	8,669,641	8,949,413

Accounts receivable are recorded including the provision on bad debts, which was RUR 5,290,659 thousand as of 31.12.2011, RUR 3,806,612 thousand as of 31.12.2010 and RUR 2,503,116 thousand as of 31.12.2009.

As of 31.12.2011, of the total amount of receivables RUR 78,383 thousand are receivables from subsidiaries and affiliates (RUR 1,598,039 and the provision for the above amount is RUR 1,519,656 thousand). As of 31.12.2010, of the total amount of receivables RUR 97,900 thousand are receivables from subsidiaries and affiliates (RUR 1,552,700 and the provision for the above amount is RUR 1,454,800 thousand). As of 31.12.2009, of the total amount of receivables RUR 1,216,042 thousand are receivables from subsidiaries and affiliates (RUR 1,975,342 and the provision for the above amount is RUR 759,300 thousand). Information on related parties is disclosed in Section 3.15 of the Explanatory Notes.

Breakdown of Line 1238 "Accounts receivable on advance payments" of the Balance Sheet is given in the following table:

RUR, thousand

Advance payments	31.12.2011	31.12.2010	31.12.2009
To service suppliers, including	2,022,237	831,554	1,443,853
JSC Mobile GTPP	795,900	-	-
JSC R&D Center for Power Engineering	505,123	173,953	-
CJSC Metrostandart	75,467	-	-
Ltd SPE Computer Technologies	73,278	-	-
JSC Elektrosetservis UNEG	33,284	7,441	439,967
JSC NPO Streamer	20,072	79,721	-
JSC Moscow Telecommunications Center of Energy Systems	7,634	247	279,456

CJSC CROC Incorporated	-	97,454	-
CJSC Center of Infrastructural Projects	-	26,256	183,067
Other	511,479	446,482	582,250
Other advance payments, including	746,956	1,004,641	1,232,677,
Ltd AK Elektrosvkavmontazh	211,140	214,363	-
CJSC ECC Soyuz-Seti	170,415	383,704	467,272
Ltd Elektrosibmontazh Plus	87,278	-	-
Ltd Torsion-Telecom	-	271,000	271,000
CJSC Elektrostroy	-	-	185,500
Ltd RDK-Avtomatika	-	-	176,317
Other	278,123	135,574	132,583
Total advance payments	2,769,193	1,836,195	2,676,525

Accounts receivable on advance payments (excluding advance payments on non-current assets) are recorded including the provision on bad debts, which was RUR 1,988,207 thousand as of 31.12.2011, RUR 1,984,897 thousand as of 31.12.2010 and RUR 1,919,150 thousand as of 31.12.2009.

As for the advance paid to JSC Svyazstroy to create a corporate digital radio communication network for the electric power industry of the Middle Volga (RUR 1,118,066 thousand as of 31.12.2010 and 31.12.2009), the Company accrued the provision for the total amount as of 31.12.2011, 31.12.2010 and 31.12.2009.

Of the total advance payments to subsidiaries and affiliates, the debt is RUR 1,391,757 thousand as of 31.12.2011, RUR 229,013 thousand as of 31.12.2010 and RUR 723,516 thousand as of 31.12.2009. No provision was accrued for the above amounts as of 31.12.2011, 31.12.10 and 31.12.2009. Information on related parties is disclosed in Section 3.15 of the Explanatory Notes.

Breakdown of Line 1239 "Other debtors" of the balance is given in the following table:

	RUR, thousand		
Type of debt	31.12.2011	31.12.2010	31.12.2009
Overpayment of taxes and payments to non-budgetary funds	7,671,151	8,338,600	5,822,007
Non-interest promissory notes	24,111,551	38,818,785	32,258,435
VAT on advance payments	1,520,819	1,704,533	1,087,920
Other	6,691,816	2,479,201	2,016,779
Total other accounts receivable	39,995,337	51,341,119	41,185,141

Other short-term accounts receivable include non-interest promissory notes of RUR 24,111,551 thousand as of 31.12.2011 (RUR 38,818,785 thousand as of 31.12.2010 and RUR 32,258,435 thousand as of 31.12.2009). As of 31.12.2011, the above amount includes non-interest promissory notes of Ltd Index Energetiki (100% subsidiary of JSC FGC UES) in the amount of RUR 24,028,057 thousand (the amount is recorded net of provision of RUR 16,642,688 thousand). The amount was RUR 37,065,426 thousand as of 31.12.2010 (net of provision of RUR 3,605,319 thousand), RUR 28,502,105 thousand as of 31.12.2009 (net of provision of RUR 14,663.640 thousand) for promissory notes payable at sight. Ltd Index Energetiki was established in the process of reorganization of RAO UES of Russia and owns stakes in energy companies, including those listed on the stock market. The total amount of promissory notes issued by Index Energetiki is based on the market-value appraisal of shares of energy companies at the

date of issue. At the end of the reporting period, the value of Index Energetiki promissory notes was adjusted for changes in the market value of shares owned by Index Energetiki.

Of the total amount of short-term accounts receivable, receivables from subsidiaries and affiliates make RUR 30,002,141 thousand as of 31.12.2011 (the accounts receivable is RUR 47,318,581 thousand and the provision for the above amount is RUR 17,316,440 thousand); RUR 43,013,940 thousand as of 31.12.2010 (the accounts receivable is RUR 47,174,095 thousand and the provision for the above amount is RUR 4,160,155 thousand), and RUR 29,776,298 thousand as of 31.12.2009 (the accounts receivable is RUR 44,671,184 thousand and the provision for the above amount is RUR 14,894,686 thousand).

Information on related parties is disclosed in Section 3.15 of the Explanatory Notes.

Accounts receivable s written off against provision for bad debts are included in “Payment” in Section 5.1 “Receivables and Flow of Receivables” of the notes to the balance and profit and loss statement and amount to RUR 36,650 thousand in 2011 (RUR 195 thousand in 2010). The respective amount of provision accrued and restored during the reporting period is recorded as restored/used provision in Section 5.1 “Availability and changes of accounts receivable”. The amount of accounts receivable written off is RUR 612 thousand in 2011 (RUR 142,486 thousand in 2010).

3.10 Other current and non-current assets

The breakdown of prepaid expenses is given in the following table:

	RUR, thousand		
Name of Prepaid Expenses	31.12.2011	31.12.2010	31.12.2009
Computer software	744,939	603,941,	1,353,888
Insurance	247,007	93,737	38,369
Other	124,666	136,401	84,394
Total prepaid expenses, including	1,116,612	834,079	1,476,651
Line 1260: short-term portion of prepaid expenses to be written off to accounts used to record expenses evenly during 12 months after the reporting date	415,320	194,748	135,367
Line 1174: long-term portion of prepaid expenses to be written off to expenses in over 12 months after the reporting date	701,292	639,331	1,341,284

The insurance expenses payment period is determined based on the insurance contract and usually does not exceed one year. The software writing-off period does not exceed five years.

3.11. Loans and Credits Received

RUR, thousand

Long-Term Loans	31.12.2011	31.12.2010	31.12.2009
Issue 06 bonds	10,000,000	10,000,000	-
Issue 07 bonds	5,000,000,	5,000,000,	-
Issue 08 bonds	10,000,000,	10,000,000,	-
Issue 09 bonds	5,000,000	5,000,000	-
Issue 10 bonds	10,000,000,	10,000,000,	-
Issue 11 bonds	10,000,000	10,000,000	-
Issue 04 bonds	-	-	6,000,000
Issue 13 bonds	10,000,000	-	-
Issue 15 bonds	10,000,000	-	-
Issue 18 bonds	15,000,000	-	-
Issue 19 bonds	20,000,000	-	-
Long-term loans			
JSC Gazprombank	25,000,000	-	-
Total long-term loans and credits	130,000,000	50,000,000,	6,000,000

RUR,
thousand

Short-Term Loans:	31.12.2011	31.12.2010	31.12.2009
Issue 02 bonds	-	-	7,000,000
Issue 04 bonds	-	6,000,000	-
Interest accrued	1,775,001	941,422	115,041
Promissory notes	-	-	366,428
Total short-term loans	1,775,001	6,941,422	7,481,469

Information on bond issues at the balance sheet date is given in the table below.

RUR, thousand

Series	06	07	08	09	10	11
Size of issue, RUR thousand	10,000,000	5,000,000	10,000,000	5,000,000	10,000,000	10,000,000
Number, mln bonds	10	5	10	5	10	10
Par value, RUR	1,000	1,000	1,000	1,000	1,000	1,000
Interest rate, %	7.15	7.50	7.15	7.99	7.75	7.99
Placement commencement date	28.09.2010	29.10.2010	28.09.2010	29.10.2010	28.09.2010	29.10.2010
Date of state registration of the issue report	05.11.2009	05.11.2009	05.11.2009	05.11.2009	05.11.2009	05.11.2009
Maturity, days	3,640	3,640	3,640	3,640	3,640	3,640
Coupon income per each bond, RUR	35.65	37.40	35.65	39.84	38.64	39.84
Interest accrued for 2011, RUR thousand	714,959	375,027	714,959	399,494	774,923	798,989

Series	13	15	18	19
Size of issue, RUR thousand	10,000,000	10,000,000	15,000,000	20,000,000
Number, mln bonds	10	10	15	20
Par value, RUR	1,000	1,000	1,000	1,000
Interest rate, %	8.50	8.75	8.50	7.95
Placement commencement date	05.07.2011	27.10.2011	12.12.2011	21.07.2011
Date of state registration of the issue report	07.06.2011	07.06.2011	07.06.2011	07.06.2011
Maturity (from placement date), days	3,640	4,368	4,368	4,368
Coupon income per each bond, RUR	42,38	43,63	42,38	39,64
Interest accrued for 2011, RUR thousand	416,814	155,821	66,364	710,035

Issue 04 in the amount of RUR 6,000,000 thousand were redeemed in 2011 (issue 02 in the amount of RUR 7,000,000 thousand were redeemed in 2010). Issue 06-19 are recognized as long-term loans.

The amount of all interest costs on loans and credits in 2011 and 2010 was included in the cost of construction in progress and was RUR 5,833,077 thousand and RUR 1,277,414 thousand, respectively. In 2009, this indicator was RUR 1,939,463 thousand.

3.12. Accounts Payable

Breakdown of Line 1521 “Accounts payable to suppliers and contractors” of the balance is given in the table below:

	RUR, thousand		
Creditor	31.12.2011	31.12.2010	31.12.2009
Payables to construction companies, including	17,757,716	10,204,014	7,786,629
LTD Engineering Center Energo	2,053,658	2,080,966	2,367,178
JSC Stroytransgas	2,120,217	28,637	
JSC Sevzapelektrosetstroy	1,220,510	1,064,596	987,447
CJSC Engineering and Construction Company Soyuz-Seti	1,828,691	1,044,609	415,962
JSC GlobalElektroServis	651,941	76,293	-
LTD Velesstroy	713,139	591,967	-
JSC Hidroelektromontazh	703,093	246,540	67,716
LTD Promstroy	445,625	133,848	26,300
JSC Ural PSC	369,913	80,603	21,126
LTD Stroymekhproekt-P	358,805	57,739	-
LTD Rusengineering	325,451	362,921	79,057
LTD Engineering Center ENERGOAUDITCONTROL	295,438	5,078	-
CJSC PC Thermoservice	285,986	126,166	215,795
LTD Project Center Energo	267,103	131,713	129,764
LTD PSI Energo	214,973	8,693	-
LTD New Engineering Company	183,583	125,531	29,325
JSC IC UES	171,057	12,187	-
JSC Elektrozaovod	163,441	807	64,487
CJSC RTSoft	143,164	28,349	71,411
LTD Rostreid	62,286	223,349	391,876
LTD ASSET Management Company	40,145	315,750	-
JSC Optima	1,618	440,888	367,895
CJSC Regionfundamentstroy-6	158,688,688	-	10,720
CJSC NC ESE	138,025,025	54,508	11,865
LTD Energeticheskiy Standard	137,935,935	28,219	53,183
JSC ElektrozapSibmontazh	122,137,137	22,640	31,053
LTD ZapSibInvestStroy	107,241,241	-	-
Other	4,473,853	2,911,417	2,444,469
Payables to service providers, including	2,673,656	3,159,218	2,885,859
CJSC Financial Settling Center	1,313,423	1,719,184	803,884
LTD Engineering Center Energoauditcontrol	105,851	106,662	-
CJSC Metrostandart	92,882	70,577	-
JSC Elektrosetservis UNEG	91,909	470,812	786,705
JSC Institute Energosetproject	76,969	9,994	36,104
Federal State Unitary Enterprise All-Russian	52,721	4,924	-

Creditor	31.12.2011	31.12.2010	31.12.2009
Electrotechnical Institute named after V.I. Lenin			
JSC Moscow Telecommunications Center of Energy Systems	52,068	28,069	27,005
LTD Bezopasnost v Promyshlennosti	50,780	334	-
LTD EnergoData	28,741	34,418	13,557
LTD SAP CIS	24,011	18,566	76,698
MC Energobalance	-	-	179,638
JSC Glavsetservis UNEG	-	85,710	245,318
Other	784,301	609,968	716,950
Other, including:	891,287	654,005	346,220
LTD Rostov Electrometallurgical Plant	106,043	106,043	106,043
CJSC Austrian Business Center	-	179,161	-
LTD RDK-Avtomatika	98,758	-	54,242
LTD Interspetsystroy	34,667	27,229	-
CJSC Tyazhpromelektromet	21,832	21,492	12,477
Other	629,987	320,080	173,458
Total accounts payable to suppliers and contractors	21,322,659	14,017,237	11,018,708

Accounts payable to suppliers and contractors include payables to SDCs in the amount of RUR 1,111,915 thousand as of 31.12.2011 (RUR 878,195 thousand as of 31.12.2010 and RUR 1,397,934 thousand as of 31.12.2009).

Breakdown of Line 1525 “Advances received” of the balance is given in the table below:

Creditor	31.12.2011	31.12.2010	31.12.2009
Advances to connect consumers to UNEG, including	9,556,802	10,455,496	6,489,387
JSC Zagorsk PSPP-2	1,400,003	1,400,003	2,634
JSC IDGC of Centre and Volga Region	1,164,175	1,149,393	1,148,811
JSC Pervouralsk New Pipe Plant	727,319	706,301	706,301
LTD Abinsk Electrometallurgical Plant	637,434	633,786	363,786
CJSC Caspian Pipeline Consortium-R	589,416	1,916	-
JSC Fortum	504,582	217,962	-
LTD South Ural Mining and Processing Company	407,994	378,221	378,221
JSC Kaluga Research and Production Electrometallurgical Plant	389,100	389,100	89,100
JSC Tyumenenergo	378,331	558,340	582,997
JSC Gazpromneft-NNG	378,222	378,222	378,223
JSC Slavneft-Megionneftegaz	250	620,211	40,087
JSC Seversky Tube Works	196	295,000	295,000
LTD OMK - Steel	-	221,798	221,798
Other (less than RUR 200 mln each)	2,979,780	3,505,243	2,282,429
Other advances, including	874,124	1,021,198	625,266
CJSC EEC	-	217,090	5,245
JSC Special Economic Zones	304,459	-	-
LTD RGS Real Estate	-	-	426,332
Other	569,665	804,108	193,689
Total advances received	10,430,926	11,476,694	7,114,653

In advances received, the share of subsidiaries and affiliates is RUR 45,412 thousand as of 31.12.2011 (RUR 42,333 thousand as of 31.12.2010 and RUR 5,277 thousand as of 31.12.2009).

Breakdown of Line 1526 “Other payables” of the balance is given in the table below:

RUR, thousand

Type of Payables	31.12.2011	31.12.2010	31.12.2009
Additional issue of shares, including	2,219,921	11,194,106	40,177,925
<i>Russian Federation as a shareholder</i>	2,217,893	11,189,250	40,167,721
<i>Other shareholders</i>	2,028	4,856	10,204
Berezville Investments Limited	-	-	1,374,683
Primagate Trading Limited	-	-	664,542
JSC IDGC Holding	-	220,096	220,096
JSC RAO Energy System of East	-	197,348	197,348
Other creditors	843,142	745,109	1,013,441
VAT	6,920,672	8,782,110	3,213,961
Total other accounts payable	9,983,735	21,138,769	46,861,996

Other payables include payables to SDCs in the amount of RUR 214,838 thousand as of 31.12.2011 (RUR 315,533 thousand as of 31.12.2010 and RUR 589,662 thousand as of 31.12.2009).

Information on related parties is disclosed in Section 3.15 of the Explanatory Notes.

3.13. Other Income and Expenses

The following items are recognized as other income:

RUR, thousand

Type of income	2011	2010
Proceeds from sale of financial investments	78,669,829	1,841,216
Repayment of promissory notes	77,486,035	87,286,815
Income from restoration of doubtful debt provision	8,424,052	20,897,376
Income from restoration of provision for financial investments	2,892,412	499
Extraordinary revenue from insured events	986,481	731,732
Fines and penalties	771,392	495,902
Income from increase in the value of previously discounted fixed assets	679,687	2,372,691
Restoration of provision for impairment of software licences	661,177	-
Income from the cost of commodities received during liquidation of fixed assets	410,876	161,911
Proceeds from sale of commodities	156,177	74,589
Profit of previous years revealed in the accounting year	110,036	320,195
Proceeds from sale of fixed assets	40,087	555,319
Proceeds from sale of intellectual property	15,656	62,445
Income from revaluation of shares at current market value	-	30,024,928
Other income	130,489	81,268
Total other income	171,434,386	144,906,886

The following are recognized as other expenses:

RUR, thousand

Type of expense	2011	2010
Expenses from disposal of financial investments	79,186,663	985,400
Repayment of promissory notes	77,501,515	85,940,592
Negative difference on revaluation of shares at current market value	24,822,899	109,402
Provision for doubtful debts	20,151,295	14,036,443
Fixed assets devaluation expenses	2,247,270	3,304,362
Provision for devaluation of financial investments	1,590,849	3,913,434
Net book value of written-off fixed assets and construction in	698,116	653,945

Type of expense	2011	2010
progress and expenses associated therewith		
Net book value of written-off software licences	661,177	-
Financial assistance and social benefits	302,036	213,449
Securities issue and servicing costs	221,434	157,846
Charitable contributions	147,547	94,167
Commodities and intellectual property rights selling expenses	146,698	108,422
Sports, entertainment and corporate events expenses	134,385	83,005
Losses of previous years revealed in the accounting year	125,946	229,331
Fees paid to non-profit organizations	117,249	18,972
Losses associated with emergency situations	94,242	282,940
Non-refundable VAT	90,157	39,729
Net book value of sold fixed assets and sale costs	26,421	284,260
Expenses for design and exploration works with negative result	2,648	125,813
Write-off of overdue receivables	612	142,486
Provision for impairment of software licences	-	661,177
Other	1,193,373	378,050
Total other expenses	209,462,532	111,763,225

As for line 5660 of the Notes to the balance and profit and loss statement, the expenses recorded in lines 2120 and 2220 of the profit and loss statement are broken down by costs.

Losses from ordinary activities include the cost of energy resources which can be divided into two groups: thermal and electrical energy for household needs and electricity to cover grid transmission losses. Lost energy paid by customers is included in the cost of power transmission services.

	RUR, thousand	
Type of energy resources	2011	2010
Electricity purchased to cover to cover grid transmission losses	12,183,173	14,183,214
Purchased thermal and electrical energy for household needs	534,797	432,838
Total expenses for energy resources	12,717,970	14,616,052

3.14. Earnings per Share

Basic earnings per share represent a share of profits within the reporting period which may be potentially distributed among shareholders holding ordinary shares. It is calculated as the ratio of basic earnings for the reporting year to a weighted average number of outstanding ordinary shares during the reporting year. Basic earnings are equal to net profit of the reporting year.

Indicator	2011	2010
Basic earnings (loss) for the reporting year, RUR thousand	(2,468,359),	57,082,314
Weighted average number of outstanding ordinary shares during the reporting year, shares	1,256,318,036,453	1,239,158,032,262
Basic earnings (loss) per share	(0.0019)	0.0461

There was an increase in the charter capital in 2011. The weighted average number of outstanding ordinary shares during the reporting year was calculated as follows: $(1,255,948,128,393 * 11 + 1,260,387,025,107 * 1) / 12$ months. In 2010: $(1,233,561,333,552 * 9 + 1,255,948,128,393 * 3) / 12$ months.

The Company has no convertible securities and has no contracts for sale and purchase of ordinary shares from the issuer at a price below their market value.

3.15. Related Parties

The list of related parties of the Company is available at the Company's web site: www.fsk-ees.ru. Members of the Board of Directors and the Management Board of the Company are disclosed in Section I "General Information" of this Explanatory Note. MRSC of North Caucasus was included in the list of related parties. MRSC of North Caucasus is not a subsidiary or affiliate of the Company, but it has been assigned the authorities of the sole executive body of Nurenergo which is a group member of UES FGC. Other companies are subsidiaries or affiliates of the Company.

Revenues from sales to related parties

RUR, thousand

Buyer	2011	2010	2009
<i>Power transmission services</i>			
JSC IDGC of North Caucasus	848,432	999,835	1,322,068
JSC Nurenergo	121,703	105,725	153,720
<i>Total power transmission services</i>	970,135	1,105,560	1,475,788
<i>Lease services:</i>			
JSC Elektroservis UNEG	45,938	52,769	73,603
JSC CEMC UES	21,501	12,956	55,610
JSC Moscow Telecommunications Center of Energy Systems	17,623	-	-
JSC Glavsetservis UNEG	287	257	660,385
Other	3,829	15,158	14,825
<i>Total lease services</i>	89,178	81,140	804,423
<i>Sale of fixed assets, commodities and securities:</i>			
JSC Glavsetservis UNEG	55,789	-	16,399
JSC Elektroservis UNEG	22,423	526,397	82,685
JSC RDC FGC UES	-	-	95,918
Other	14	2,271	15,783
<i>Total sale of fixed assets, commodities and securities</i>	78,226	528,668	210,785
<i>Other revenues from sales:</i>			
JSC Moscow Telecommunications Center of Energy Systems	86,125	-	-
JSC Chitatekhenargo	79,887	-	-
JSC Kuban Trunk Grids	599	40,762	36,785
JSC Glavsetservis UNEG	73	-	152,556
Other	8,108	98,481	31,743
<i>Total other revenues from sales</i>	174,792	139,243	221,084
TOTAL Revenues from sales to related parties	1,312,331	1,854,611	2,712,080

Purchases from related parties

RUR, thousand

Buyer	2011	2010	2009
<i>Maintenance and repair services:</i>			
JSC Elektroservis UNEG	2,569,854	2,624,850	3,171,149
LTD IT Energy Service	124,765	66,550	-
JSC Glavsetservis UNEG	19,646	20,558	8,140,935

Buyer	2011	2010	2009
Other	-	-	9,807
Total maintenance and repair services	2,714,265	2,711,958	11,321,891
Services of owner/developer:			
JSC CEMC UES	2,416,696	2,385,250	1,695,350
Total services of owner/developer	2,416,696	2,385,250	1,695,350
Tender services, supply of equipment and commodities:			
JSC Elektroservis UNEG	1,152,506	1,218,612	604,893
JSC Moscow Telecommunications Center of Energy Systems	728,347	249,178	-
JSC Energostroysnabkomplekt	345,716	240,200	114,443
JSC Glavservis UNEG	124,198	637,674	828
Other	51,804	5,817	8,818
Total tender services and supply of equipment	2,402,571	2,351,481	728,982
Construction and installation, design and exploration services			
JSC Elektroservis UNEG	1,233,498	232,247	110,270
JSC RDC FGC UES	530,331	-	-
JSC Dalenergoprojekt	354,567	506,677	229,992
JSC Moscow Telecommunications Center of Energy Systems	310,600	-	167,888
Other	67,498	4,039	39,155
Total construction and installation, design and exploration services	2,496,494	742,963	547,305
Communication and maintenance services			
JSC Moscow Telecommunications Center of Energy Systems	731,069	559,420	504,144
JSC Chitatekhenengo	-	-	4,836
Other	-	458	-
Total communication and maintenance services	731,069	559,878	508,980
Other services:			
JSC RDC FGC UES	650,292	-	-
JSC Krzhizhanovsky Energy Institute	232,869	56,894	222,134
JSC Tomsk Trunk Grids	190,943	103,282	112,868
JSC Kuban Trunk Grids	126,620	96,678	100,702
CJSC Energy Forecasting Agency	103,270	130,164	135,390
JSC Glavservis UNEG	6,761	13,928	133,086
Other	24,358	52,072	60,638
Total other services	1,335,113	453,018	764,818
TOTAL purchases from related parties	12,096,208	9,204,548	15,567,326

Other services include property lease services, information services, R&D services and other production services.

Services to the Company were rendered at usual current prices at which similar services are rendered by the listed contractors in the normal course of business. Settlements for services provided to the Company are made upon provision of services.

Status of settlements with related parties

Accounts receivable

RUR, thousand

Debtor	31.12.2011	31.12.2010	31.12.2009	Note
<i>Trade receivables</i>				
JSC Glavsetservis UNEG	708,687	708,536	1,481,828	*
JSC Nurenergo	667,249	523,642	398,917	*
JSC IDGC of North Caucasus	346,821	313,303	5,603	*
JSC Elektrosetservis UNEG	197,696	258,943	20,130	*
Other	24,407	61,579	74,467	
<i>Total trade receivables</i>	1,944,860	1,866,003	1,980,945	
<i>Advances paid:</i>				
JSC MGTES	1,605,033	56	-	
JSC RDC FGC UES	1,138,090	232,968	731	
JSC IDGC of North Caucasus	800,000	800,000	800,000	
JSC Elektrosetservis UNEG	654,058	806,867	732,836	
JSC Dalenergosetproject	81,835	-	-	
JSC IT Energy Service	45,070	-	-	
JSC Moscow Telecommunications Center of Energy Systems	32,988	252,510	280,003	
JSC Glavsetservis UNEG	28,575	102,601	116,335	
Other	4,522	56,317	,26,318	
<i>Total advances paid</i>	4,390,171	2,251,319	1,956,223	
<i>Other receivables</i>				
JSC Index Energetiki	40,670,745	40,670,745	43,165,745	*
JSC MGTES	-	-	3,000,000	*
JSC Kuban Trunk Grids	5,892,028	6,056,523	3,749,189	
JSC Nurenergo	338,976	278,820	219,634	*
JSC Elektrosetservis UNEG	222,623			
JSC Tomsk Trunk Grids	80,403	106,947	112,421	
JSC Glavsetservis UNEG	55,789	-	22,926	
JSC GVC Energetiki	43,283	-	-	
Other	14,734	65,852	238,018	
<i>Total other receivables</i>	47,318,581	47,178,887	50,507,933	
TOTAL receivables of related parties	53,653,612	51,108,400	54,445,101	

* excluding the provision for doubtful debts

* Non-interest promissory notes

Provision for doubtful debts as of 31.12.2011

RUR, thousand

Debtor	Amount without provision for doubtful debts	Amount of provision for doubtful debts	Amount with provision for doubtful debts
<i>Provision for accounts receivable</i>			
JSC Glavsetservis UNEG	708,687	708,246	441
JSC Nurenergo	667,249	640,377	26,872
JSC IDGC of North Caucasus	346,821	163,496	183,325
JSC Elektrosetservis UNEG	197,696	171,033	26,663
Other	24,407	-	24,407
<i>Total provision for accounts receivable</i>	<i>1,944,860</i>	<i>1,683,152</i>	<i>261,708</i>
<i>Provision for advances paid:</i>			
JSC IDGC of North Caucasus	800,000	800,000	-
Other	3,590,171	2,835	3,584,336
<i>Total provision for advances paid</i>	<i>4,390,171</i>	<i>802,835</i>	<i>3,584,336</i>
<i>Provision for other receivables:</i>			
LTD Index Energetiki	40,670,745	16,642,688	24,028,057
Other	6,647,836	673,752	5,974,084
<i>Total provision for other accounts receivable</i>	<i>47,318,581</i>	<i>17,316,440</i>	<i>30,002,141</i>
TOTAL	53,653,612	19,799,592	33,848,185

Provision for doubtful debts as of 31.12.2010

RUR, thousand

Debtor	Amount without provision for doubtful debts	Amount of provision for doubtful debts	Amount with provision for doubtful debts
<i>Provision for other accounts receivable of buyers and customers</i>			
JSC Glavsetservis UNEG	708,536	708,246	290
JSC Nurenergo	523,642	491,923	31,719
JSC IDGC of North Caucasus	313,303	34,895	278,408
JSC Elektrosetservis UNEG	258,943	254,610	4,333
Other	12,499	21	12,478
<i>Total provision for accounts receivable of buyers and customers</i>	<i>1,816,923</i>	<i>1,489,695</i>	<i>327,228</i>
<i>Provision for advances paid:</i>			
JSC IDGC of North Caucasus	800,000	800,000	-
<i>Total provision for advances paid</i>	<i>800,000</i>	<i>800,000</i>	<i>-</i>
<i>Provision for other accounts receivable:</i>			
LTD Index Energetiki	40,670,745	3,605,318	37,065,427
Other	6,398,772	557,619	5,841,153
<i>Total provision for other accounts receivable</i>	<i>47,069,517</i>	<i>4,162,937</i>	<i>42,906,580</i>
TOTAL	49,686,440	6,452,632	43,233,808

Provision for doubtful debts as of 31.12.2009

RUR, thousand

Debtor	Amount without provision for doubtful debts	Amount of provision for doubtful debts	Amount with provision for doubtful debts
<i>Provision for accounts receivable of buyers and customers</i>			
JSC Glavsetservis UNEG	1,481,828	395,879	1,085,949
JSC Nurenergo	398,916	353,240	45,676
Other	24,942	11,451	13,491
Total provision for accounts receivable of buyers and customers	1,905,686	760,570	1,145,116
<i>Provision for advances paid:</i>			
JSC IDGC of North Caucasus	800,000	800,000	-
Total provision for advances	800,000	800,000	-
<i>Provision for other account receivable:</i>			
LTD Index Energetiki	43,165,745,	14,663,640	28,502,105
JSC Nurenergo	219,634	219,634	0
Other	12,813	12,813	0
Total provision for other receivables	43,398,192	14,896,087	28,502,105
TOTAL	46,103,878	16,456,657	29,647,221

Accounts payables

RUR, thousand

Creditor	31.12.2011	31.12.2010	31.12.2009
<i>Settlements with suppliers and contractors:</i>			
JSC Elektrosetservis UNEG	629,788	531,048	802,027
JSC Moscow Telecommunications Center of Energy Systems	156,388	47,511	50,223
JSC Glavsetservis UNEG	966	112,469	275,492
JSC Energy Forecasting Agency	25,423	-	110,861
JSC Dalenergosetproject	91,930	111,711	63,657
Other	207,420	75,456	95,674
Total settlements with suppliers and contractors	1,111,915	878,195	1,397,934
<i>Settlements in respect of advances received:</i>			
JSC Kuban Trunk Grids	40,873	40,873	4,765
Other	5,900	1,558	512
Total settlements of advances received	46,773	42,431	5,277
<i>Other accounts payable:</i>			
JSC CEMC UES	211,417	315,493	559,235
Other	3,421	40	30,427
Total other settlements	214,838	315,533	589,662
TOTAL accounts payable to related parties	1,373,526	1,236,159	1,992,873

Relations with the Private Energy Pension Fund

Contributions to the Private Energy Pension Fund for voluntary pension insurance of Company employees amounted to RUR 383,433 thousand in 2011 (RUR 261,626 thousand in 2010 and RUR 68,729 thousand in 2009). There is no balance of settlements with the Private Energy Pension Fund as of 31.12.2011, 31.12.2010 and 31.12.2009.

Remuneration paid to members of the Board of Directors and the Management Board

The remuneration paid to members of the Board of Directors and the Management Board for performance of their duties consists of the salary under the employment contract and bonuses determined based on their performance during the year.

During 2011, the Company paid remunerations to members of the Board of Directors and the Management Board in the total amount of RUR 419,186 (RUR 174,581 thousand in 2010 and RUR 102,798 thousand in 2009). No voluntary pension insurance contributions were made in 2011, 2010 and 2009. The amount of compulsory insurance contributions was RUR 3,366 thousand in 2011, RUR 1,316 thousand in 2010 and RUR 4,013 thousand in 2009. The amount of insurance contributions was RUR 3,376 thousand in 2011, RUR 3,710 thousand in 2010 and RUR 4,949 thousand in 2009. Members of the Board of Directors and the Management Board are disclosed in Section I “General Information” of this Explanatory Note.

Related parties cash flows are given in the table below:

				RUR, thousand
Item	Code	For 2011	For 2010	
Cash flow from current operations:				
Proceeds from sale of products	4111	260,491	144,582	
Proceeds from lease payments	4112	92,062	209,895	
Other proceeds	4119	530,229	680,264	
Payments to suppliers for raw materials, works and services	4121	3,987,049	4,743,240	
Cash flow from investment operations:				
Proceeds from sale of non-current assets	4211	-	827,216	
Proceeds from repayment of loans, sale of debt securities	4213	-	5,737,519	
Proceeds from dividends, interest on debt financial investments and similar income from participation in other companies	4214	253,953	493,463	
Payments in connection with the acquisition, creation, modernization, reconstruction and preparation for use of non-current assets	4221	136,278,807	135,466,836	

3.16. Cash and Cash Equivalents

Composition of cash and cash equivalents:

				RUR, thousand
Item	31.12.2011	31.12.2010	31.12.2009	
Cash in hand	3,652	3,666	2,447	
Cash in settlement accounts	17,239,037	11,233,055	11,305,731	
Cash in special bank accounts	5,018	4,980	3,963	
Monetary documents	3	1	-	
Cash in transit	-	1,600	-	
Total cash (line 1250)	17,247,710	11,243,302	11,312,141	

All funds are available for use by the Company.

Cash flows required to maintain the existing level of operations of the Company is recorded in current operations.

RUR, thousand

Other payments for operating activities (line 4129)	31.12.2011	31.12.2010
Tax payments (excluding VAT)	5,991,827	4,325,318
Insurance payments	1,746,982	1,370,097
VAT	-	2,730,193
Other payments	1,615,110	4,194,067
Total other payments for operating activities	9,353,919	12,619,675

Other proceeds from operating activities (line 4119)	31.12.2011	31.12.2010
Insurance proceeds	988,554	730,670
VAT	953,354	-
Interest on bank account	755,493	651,157
Other	1,581,350	3,114,608
Total other payments for investment activities	4,278,751	4,496,435

3.17. Segment Information

The Company's primary activity is to provide power transmission services via UNEG, and this activity represents one industrial segment which is separated by the Company from other activities based on the existing organizational and management structure and provides 97.6% of proceeds from the sale of goods, works and services. Other activities, such as power grid connection services, lease services, etc., do not meet the criteria for separation of reportable segments as provided by Accounting Regulations 12/2010 "Segment Information". Therefore, information on the above segments is not disclosed separately.

JSC Tyumenenergo is a buyer the proceeds from sales to which makes at least 10% of total revenue (in 2011, the amount of revenue was RUR 13,928,461 thousand, i.e. 10.03% of total revenue; in 2010, the amount of revenue was RUR 11,387,239 thousand, i.e. 10.19% of total revenue).

3.18. Security for Obligations

The following items are recognized in line 5810 of the supplement "Obligations Issued" to the balance sheet at the end of the reporting year:

- obligations under guarantee to the State Unitary Enterprise Foreign Economic Association Technopromexport in the amount of RUR 30,815 thousand;
- obligations issued to banks for employees' housing loans in the amount of RUR 36,755 thousand.

The following items are recognized in line 5800 "Obligations Received" of the balance:

- obligations under the property pledge agreement with JSC Kuban Trunk Grids for RUR 1,003,247 thousand for the money loan granted (information is disclosed in Section 3.8.2). The loans are secured by real property, facilities of UNEG, without the right of use. The market value of the above property assessed as of 5.9.2005 is RUR 1,003,247 thousand;
- obligations under apartment pledge agreements in the amount of RUR 13,589 thousand;

- the amount of obligations in the amount of RUR 127,763,423 thousand represents bank guarantees for advances which the Company pays in accordance with the terms of power facilities construction contracts.

Guarantors for securities obtained in the form of third party guarantees, Section 8 of the supplement to the balance sheet and the profit and loss account:

RUR, thousand

Guarantor	31.12.2011	31.12.2010	31.12.2009
JSC Gazprombank	15,510,048	11,450,341	2,724
JSC Promsvyazbank	14,571,429	7,944,124	1,133,524
CJSC CB Otkritie	10,850,608	11,205,141	189,934
JSC Bank Saint Petersburg	8,266,711	7,135,128	118,000
JSC Bank of Khanty-Mansiysk	7,388,074	3,378,669	-
JSC Nomos-Bank	6,487,683	7,705,474	3,754,711
JSC VTB Bank	5,618,150	6,109,565	200,000
CJSC CB Transcapitalbank	5,324,473	-	-
JSC Bank Zenit	4,558,733	480	-
JSC MDM-Bank	4,075,901	4,707,278	1,044,904
JSC TransCreditBank	3,967,871	3,979,810	-
CJSC CB Globex	3,961,618	-	-
JSC Alfa-Bank	3,857,410,	450,502	-
JSC AKB Probusinessbank	3,530,316	3,171,039	923,714
JSC Bank Petrocommerce	3,239,590	3,811,252	-
JSC Nota-Bank	2,498,405	4,535,534	8,012,577
JSC Bank Uralsib	594	5,327,589	-
Other	24,055,809	33,288,570	55,563,896
TOTAL	127,763,423	114,200,496	70,943,983

3.19. Estimated Liabilities, Contingent Liabilities and Contingent Assets

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes.

The management of the Company does not exclude the possibility of future disagreements with regulatory authorities on some operations made in the reporting and previous periods (including on operations relating to the reorganization of the Company due to reforms in the electric power industry) which may lead to changes in economic performance. In accordance with the provisions of Clause 24 “Contingencies” of Accounting Regulations 8/01, the details of such operations are not disclosed in the report.

The experience of tax inspections shows that tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and, perhaps, the transactions and activities that have not been challenged in the past will be challenged. As a consequence, substantial additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Company's management believes that as of December 31, 2011, the relevant legal provisions were interpreted correctly and the Company's position will be stable from the point of view of tax, currency and customs legislation.

Financial crisis

The Russian economy displays certain characteristics specific for emerging markets, in particular, a relatively high inflation and high interest rates. The recent global financial crisis has had significant impact on the Russian economy. In 2011, there were signs of improvement of the Russian economy, such as a moderate economic growth. The restoration was accompanied by growing population income, lower lending rates, stabilization of the Russian RUR against foreign currencies and growing market liquidity.

Currently, the Company's management cannot assess the effect of possible stagnation of economic restoration, including in the foreign exchange market and capital markets.

The future economic development of Russia is largely dependent on effective decisions of the Russian Government, taking into account fiscal, legal and political changes.

The Company's management is unable to foresee all possible changes that may affect the Russian economy and, accordingly, the effect of such impact on the future financial position of the Company. The Company's management takes all possible measures to support the financial position and further development of the Company.

According to the Company's management, the construction of facilities under contracts for technological connection of consumers' power plants to the Company's grids does not make part of technological connection activities which are the subject of such contracts, but refers to preliminary activities that create conditions for fulfillment of the Company's obligations relating to technological connection of consumers. In this regard, the management believes that there is no need to distribute the Company's income under such agreements for the period from commencement of the said construction works for the purpose of forming the tax base for income tax. In the event such claims are raised by tax authorities, the Company's management believes that the possibility of successful litigations on this issue for the Company is rather high.

3.20. Post Reporting Events

On 24.02.2012, the Company approved the report on the results of the additional issue of securities. 4,438,530,347 shares for RUR 2,219,265 thousand with a nominal value of 50 kopecks each share were placed. As of 31.12.2011, contributions payable to the charter capital were recorded in the amount of RUR 2,219,921 thousand (see Clause 3.12).

On 10.01.2012, the Company paid the first coupon for series 13 bonds for the total amount of RUR 423,800 thousand. State registration number of the issue: 4-13-65018-D dated 7.07.2011. The first coupon interest rate is 8.5% p.a., the coupon income is RUR 42.38 per bond.

On 19.01.2012, the Company paid coupon income to series 19 bond owners in the amount of RUR 39.64 per bond, based on the coupon rate of 7.95% p.a. The total amount of income paid on the 1st coupon

is RUR 792,800 thousand. On 21.07.2011, the Company's series 19 bonds in the amount of RUR 20 billion maturing in 12 years were placed. The 1st coupon rate was set based on the results of book building close. The 2-14th coupons interest rates are equal to that of the 1st coupon. The placement terms include 7 years put-option.

Chairman of the Management Board

O.M. Budargin

Chief Accountant

A.P. Noskov

March 19, 2012