

SO UPS GROUP

**International Financial Reporting Standards (IFRS)
Consolidated Financial Statements**

for the year ended 31 December 2011

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Independent Auditors' Report

To the Board of Directors of Open Joint Stock Company "System Operator of the United Power System" (JSC SO UPS):

We have audited the accompanying consolidated financial statements of JSC SO UPS and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG

2 July 2012

SO UPS GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
In millions of Russian Roubles (RUB)**

Consolidated Statement of Financial Position as at 31 December 2011

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	5	16,146	14,632
Intangible assets	6	2,081	1,486
Other non-current assets	7	2,011	1,557
Total non-current assets		20,238	17,675
Current assets			
Cash and cash equivalents		7,431	6,561
Accounts receivable and prepayments	8	916	442
Income tax receivable		108	73
Inventories		76	90
Other investments		200	-
Other current assets		45	49
Total current assets		8,776	7,215
TOTAL ASSETS		29,014	24,890
EQUITY AND LIABILITIES			
Equity attributable to the shareholder			
Share capital registered	9	2,576	2,576
Share premium	9	7,800	7,800
Revaluation reserve	5	4,880	4,880
Contribution from the shareholder	9	833	608
Retained earnings		6,915	3,394
Total equity		23,004	19,258
Non-current liabilities			
Non-current debt	10	1,655	575
Deferred income tax liabilities	15	751	718
Retirement benefit obligations	11	924	881
Total non-current liabilities		3,330	2,174
Current liabilities			
Current debt and current portion of non-current debt	10	607	1,819
Accounts payable	12	1,431	1,138
Taxes payable	13	642	501
Total current liabilities		2,680	3,458
Total liabilities		6,010	5,632
TOTAL EQUITY AND LIABILITIES		29,014	24,890

Director, Finance and Economics

I.L. Solonar

Chief Accountant

M.S. Sedyakin



"02", July 2012

SO UPS GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
In millions of Russian Roubles (RUB)**

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Revenues			
Dispatch management fees		20,683	15,957
Other income		507	326
Total revenues		21,190	16,283
Operating expenses			
Wages, benefits and payroll taxes		(9,592)	(8,180)
Depreciation of property, plant and equipment and amortizations of intangible assets	5, 6	(2,115)	(1,776)
Rental expenses		(605)	(623)
Consulting services		(393)	(499)
Repairs and maintenance expenses		(736)	(548)
Transportation expenses		(395)	(398)
Taxes other than income tax		(298)	(259)
Services on regulation of frequency		(497)	-
Other materials		(233)	(150)
Insurance expense		(181)	(189)
Business travel expenses		(258)	(184)
Telecommunication services		(174)	(174)
Utilities expenses		(133)	(105)
Research costs		(166)	(87)
Revaluation of property, plant and equipment	5	-	(290)
Other operating expenses		(719)	(493)
Operating expenses		(16,495)	(13,955)
Operating profit		4,695	2,328
Finance income and costs			
Finance income	14	161	378
Finance costs	14	(245)	(416)
Profit before income tax		4,611	2,290
Income tax expense	15	(1,095)	(637)
Profit for the year		3,516	1,653
Other comprehensive income			
Revaluation of property and plant equipment		-	16
Net change in fair value of available-for-sale financial assets		6	13
Income tax on other comprehensive income		(1)	(5)
Other comprehensive income for the year		5	24
Total comprehensive income for the year		3,521	1,677
Total comprehensive income attributable to Shareholder		3,521	1,677

Director, Finance and Economics

I.L. Solonar

Chief Accountant



M.S. Sedyakin

„12” July 2012

SO UPS GROUP

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

In millions of Russian Roubles (RUB)

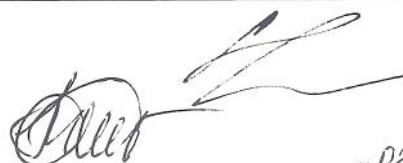
Consolidated Statement of Cash Flows for the year ended 31 December 2011

	Note	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		4,611	2,290
<i>Adjustments to reconcile profit before income tax to net cash provided by operations:</i>			
Depreciation and revaluation of property, plant and equipment and amortization of intangible assets	5, 6	2,115	2,066
Retirement benefit charge	11	136	189
Foreign exchange gain		(16)	(217)
Finance costs, net (excluding interests of retirement benefit obligations)	14	5	147
Non-refundable VAT		18	13
Loss on disposal of property, plant and equipment		-	2
Adjustment for other non-cash activities		78	42
Operating cash flows before working capital changes and income tax paid		6,947	4,532
<i>Working capital changes:</i>			
Change in accounts receivable and prepayments		(329)	216
Change in other non-current and current assets		(36)	(51)
Change in inventories		14	(43)
Change in accounts payable and accruals		293	(67)
Change in taxes payable, other than income tax		125	(2)
Income tax paid		(1,139)	(723)
Retirement benefits paid	11	(93)	(108)
Net cash generated by operating activities		5,782	3,754
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment and intangible assets		(4,729)	(1,144)
Interest received		1	157
Purchases of investments		(200)	-
Net cash used in investing activities		(4,928)	(987)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		-	(2,323)
Interest paid		-	(99)
Net cash used in financing activities		-	(2,422)
Net increase in cash and cash equivalents		854	345
Cash and cash equivalents at the beginning of the year		6,561	6,170
Effect of exchange rate fluctuations on cash held		16	46
Cash and cash equivalents at the end of the year		7,431	6,561

Director, Finance and Economics

I.L. Solonar

Chief Accountant



M.S. Sedyakin

«02» July 2012

SO UPS GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

In millions of Russian Roubles (RUB)

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

	Share capital	Share premium	Revaluation reserve	Contribution from the shareholder	Retained earnings	Total equity
At 1 January 2010	2,576	7,800	4,866	608	1,731	17,581
Profit for the year	-	-	-	-	1,653	1,653
Other comprehensive income, net of tax	-	-	14	-	10	24
Total comprehensive income for the year	-	-	14	-	1,663	1,677
At 31 December 2010	2,576	7,800	4,880	608	3,394	19,258
Profit for the year	-	-	-	-	3,516	3,516
Other comprehensive income, net of tax	-	-	-	-	5	5
Total comprehensive income for the year	-	-	-	-	3,521	3,521
Other contributions from owners and other movements	-	-	-	225	-	225
At 31 December 2011	2,576	7,800	4,880	833	6,915	23,004

Director, Finance and Economics

Chief Accountant



I.L. Solonar

M.S. Sedyakin

„02„ July 2012

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 In millions of Russian Roubles (RUB)

Note 1. General information

The Company and its operations

The Open Joint Stock Company “System Operator of the United Power System” (“the Company” or JSC “SO UPS”) was founded based on the Resolution of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (“RAO UES”) No.39r of 13 June 2002 in accordance with the Decree of the Russian Federation Government No.526 of 11 July 2001 ‘On reforming of electricity (power) generation industry of the Russian Federation’.

The Company’s registered office is located at bld. 3, 7 Kitaigorodsky proezd, 109074, Moscow, Russia.

The Company’s principal activities include electricity dispatching functions within the Unified Energy System of the Russian Federation and organization of forecasting of power production and consumption.

As at 31 December 2011, the Company had 67 branches (31 December 2010: 67).

The SO UPS Group (“the Group”) includes the Company and its subsidiaries. As at 31 December 2011 the Company owned 100 % (2010: 100%) of the share capital of JSC “High Voltage Direct Current Power Transmission Research Institute” (JSC “NIIPT”) and 100 % (2010: 100%) of the share capital CJSC “Inspection of Electric Power Facilities” (CJSC “Technical Inspection of UES”). All subsidiaries have been established and operate in the territory of the Russian Federation.

Business environment

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

Relations with the State

As at 31 December 2011 and as at 31 December 2010 the Russian Federation represented by the Federal Agency of State Property Management owned 100 percent of JSC “SO UPS”.

The Group’s customer base includes a large number of enterprises which are either controlled by or directly relate to the State.

The Government of the Russian Federation directly affects the Company’s operations through:

- participation of its representatives on the Board of Directors of the Company;
- regulation by the Federal service on tariffs (“FST”) of the fees chargeable by the Company for the provision of dispatching services related to electric power transmission in the Unified Energy System of Russia;
- control over and approval of the Company’s investment program; and
- antimonopoly regulation.

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 In millions of Russian Roubles (RUB)

Note 2. Basis of preparation

Statement of compliance

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

Each company of the Group maintains its accounting records and prepares its financial statements in accordance with the Regulation on Accounting and Reporting of the Russian Federation. The accompanying Financial Statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purposes of fair presentation in accordance with IFRS.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the property, plant and equipment class “Buildings” which is stated at a revalued amount and financial instruments classified as available-for-sale which are stated at fair value.

Functional and presentation currency

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

Comparative amounts

Certain prior period amounts have been reclassified to conform with the current period’s presentation.

New accounting pronouncements

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

- IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the amendment on its financial position or performance.

Note 2. Basis of preparation (continued)

- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the amendment on its financial position or performance.

Note 2. Basis of preparation (continued)

- IFRS 11 Joint Arrangements will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the amendment on its financial position or performance.

Note 2. Basis of preparation (continued)

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- Amendment to IAS 12 *Income taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- Amendment to IFRS 7 *Disclosures – Transfers of Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group has not yet analysed the likely impact of the amendment on its financial position or performance.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Critical accounting estimates and assumptions

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

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

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

In millions of Russian Roubles (RUB)

Note 2. Basis of preparation (continued)

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

Note 5 - Revaluation of the class 'Buildings' within property, plant and equipment

Note 5 - Useful life of property, plant and equipment

Note 11 - Retirement benefit obligations

Note 3. Summary of significant accounting policies

(a) Consolidation principles

The Group's consolidated financial statements incorporate the results, cash flows, assets and liabilities of JSC "SO UPS" and its subsidiaries. Subsidiaries are those entities over which the Company has the ability to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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

All intragroup transactions and balances, and any unrealized income and expenses arising from the intragroup transactions are eliminated on consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Monetary assets and liabilities which are held by the Group and denominated in foreign currencies at the balance sheet date are translated into RUB at the exchange rates effective at that date. Foreign currency transactions are accounted for at the exchange rates effective at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared and approved by the shareholders before or on the balance sheet date. Dividends are disclosed when they are declared after the reporting date, but before the financial statements are authorized for issue.

(d) Property, plant and equipment

Items of property, plant and equipment, except for buildings, are stated at acquisition or construction cost less accumulated depreciation and impairment losses. Property, plant and equipment items comprising the Buildings class are stated at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis to ensure that the carrying amount does not differ significantly from that which would be determined using fair value at the reporting date. The frequency of revaluations depends upon the movements in the fair values of the assets being revalued.

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

In millions of Russian Roubles (RUB)

Note 3. Summary of significant accounting policies (continued)

The increase in the carrying amount arising on revaluation of an item of property, plant and equipment is recognised directly in the revaluation reserve in other comprehensive income except to the extent that it reverses a previous revaluation decrease of the same item of property, plant and equipment recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on the carrying amount of an item of property, plant and equipment is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in other comprehensive income, in which case the reversing amount is recognised directly in other comprehensive income.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Group recognizes deferred tax assets and liabilities arising from revaluation of items of property, plant and equipment directly in equity, except when the revaluation result was recognised in profit or loss.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment (other than the class Buildings). If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in profit or loss. An impairment loss recognised in prior years is reversed if there has been a change in the estimates used to determine an asset's recoverable amount.

Renewals and improvements are capitalized and the assets replaced are retired. Repair and maintenance costs are expensed as incurred.

Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred. For items of property, plant and equipment carried at revalued amounts, any revaluation surplus relating to these items is released to retained earnings on retirement via OCI.

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Land is not depreciated. The useful lives, in years, of assets by type of facility are as follows:

	The useful lives
Buildings	20 to 50 years
Electrical equipment	15 to 20 years
Computer, dispatching and communication equipment	3 to 20 years
Other PPE items (motor vehicles, office equipment, furniture and fixtures etc.)	3 to 20 years

Useful lives of property, plant and equipment are reviewed annually.

(e) Intangible Assets

All of the Group's intangible assets have definite useful lives and primarily include capitalized computer software and licences.

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring them to use.

Note 3. Summary of significant accounting policies (continued)

After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated on a straight-line basis over the useful lives of 1-5 years.

At each reporting date management assesses whether there is any indication of impairment of intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of the assets' fair value less costs to sell and their value in use.

Research costs are recognised as an expense as incurred. Development costs are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure incurred during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. The carrying value of development costs is reviewed for impairment annually.

(f) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks, cash on hand and cash deposited on demand at banks with an original maturity of three months or less.

(g) Other investments

Other investments comprise deposits with maturities of more than three months from the acquisition date.

The Group initially recognises other investments on the date that they are originated.

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

(h) Accounts receivable and prepayments

Accounts receivable are recorded inclusive of value added taxes less an allowance made for impairment of these receivables. An allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the original effective rate of interest. Where provision has been made for impairment of receivables, the impairment loss is recognised for the gross amount of the debtor's balance, including value added tax.

SO UPS GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 In millions of Russian Roubles (RUB)

Note 3. Summary of significant accounting policies (continued)

(i) Value added tax on purchases and sales

Output value added tax ("VAT") related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability.

(j) Borrowings

Borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs. After initial recognition, borrowings are measured at amortised cost using the effective interest method; any difference between the initial fair value of the consideration received (net of transaction costs) and the redemption amount is recognised in profit or loss as an interest expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily requires extended period to prepare the asset for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are recognised as an expense in the period in which they were incurred. Borrowing costs include interest costs and other costs incurred by the Group in connection with borrowings.

The Group capitalizes borrowing costs relating to all the qualifying assets for which the commencement date for construction is on or after 1 January 2009. The Group continues to recognize as an expense borrowing costs associated with construction projects for which the commencement date is before 1 January 2009.

(k) Accounts payable and accrued charges

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

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Employee benefits

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in wages, benefits and payroll taxes in the income statement.

The Group incurs employee costs related to the provision of other benefits such as medical insurance and accident insurance, which are also expensed when incurred.

The Group operates defined benefit plans that cover the majority of the Group's employees.

Note 3. Summary of significant accounting policies (continued)

Benefit plans define the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method.

The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using the interest rate of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligations are charged or credited to profit or loss over the employees' expected average remaining working lives.

(n) Deferred income tax

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax asset for deductible temporary differences is recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

(o) Revenue recognition

Revenue from rendering services is recognised in the period the services are provided. Revenue amounts are presented exclusive of value added taxes. Revenue from rendering dispatching services related to electric power transmission is determined based on tariffs authorised and approved by the Federal service on tariffs ("FST").

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 In millions of Russian Roubles (RUB)

Note 3. Summary of significant accounting policies (continued)

(p) Operating leases

Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Note 4. Balances and transactions with related parties

The Group's related parties are represented by:

- other companies under the State control;
- members of the Company's Board of Directors and members of the Company's Management Board.

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under State control. The Group had the following significant transactions and balances with state-controlled entities:

	For the year ended 31 December 2011	For the year ended 31 December 2010
Dispatch management fees	17,799	10,577
Consulting services costs	950	362

	31 December 2011	31 December 2010
Accounts receivable	498	65
Cash and cash equivalents	5,687	5,291
Accounts payable	164	51
Current debt (Note 10) (with fixed interest rate 7% per annum)	607	1,819
Non-current debt (Note 10) (non-interest bearing)	1,655	575

Dispatch services were provided to companies under State control on the same terms as those to the other companies at the set tariffs.

Current and non-current debt included promissory notes issued by the Company. The terms of the issued promissory notes are disclosed in Notes 9 and 10.

Directors' compensation

Compensation is paid to the members of the Company's Management Board for their services in full time management positions. The compensation is made up of a contractual salary, non-cash benefits and a performance bonus depending on results for the period according to Russian statutory financial statements. The compensation is approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors for their services in that capacity and for attending Board meetings are paid depending on results for the year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Note 4. Balances and transactions with related parties (continued)

The short-term compensations paid to the members of the Board of Directors and Management Board in monetary and non-monetary (medical insurance, provision of accommodation) forms amounted to RUB 91 million and RUB 72 million for the years ended 31 December 2011 and 31 December 2010, respectively.

The members of the Management Board also participate in the Company's pension plan (Note 11).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 5. Property, plant and equipment

	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other	Construction in progress	TOTAL
Cost / Revalued amount							
Balance at 1 January 2011	8,943	1,194	6,623	464	486	1,332	19,042
Additions	635	343	1,346	132	220	498	3,174
Transfers	684	13	68	-	27	(792)	-
Disposals	-	(45)	(135)	-	(15)	-	(195)
Balance at 31 December 2011	10,262	1,505	7,902	596	718	1,038	22,021
Accumulated depreciation							
Balance at 1 January 2011	-	(694)	(3,468)	-	(248)	-	(4,410)
Charge for the period	(159)	(181)	(1,233)	-	(73)	-	(1,646)
Disposals	-	40	130	-	11	-	181
Balance at 31 December 2011	(159)	(835)	(4,571)	-	(310)	-	(5,875)
Net book value as at							
1 January 2011	8,943	500	3,155	464	238	1,332	14,632
31 December 2011	10,103	670	3,331	596	408	1,038	16,146

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
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Note 5. Property, plant and equipment (continued)

	Buildings	Electrical equipment	Computer, dispatching and communication equipment	Land	Other	Construction in progress	TOTAL
Cost / Revalued amount							
Balance at 1 January 2010	8,664	1,144	4,801	374	424	1,546	16,953
Additions	289	65	1,691	90	64	841	3,040
Transfers	835	3	211	-	5	(1,054)	-
Disposals	-	(18)	(80)	-	(7)	(1)	(106)
Revaluation increase	16	-	-	-	-	-	16
Revaluation decrease to profit or loss	(290)	-	-	-	-	-	(290)
Elimination of depreciation for revalued assets	(571)	-	-	-	-	-	(571)
Balance at 31 December 2010	8,943	1,194	6,623	464	486	1,332	19,042
Accumulated depreciation							
Balance at 1 January 2010	(277)	(536)	(2,630)	-	(193)	-	(3,636)
Charge for the period	(294)	(175)	(918)	-	(60)	-	(1,447)
Additions	-	-	-	-	(2)	-	(2)
Disposals	-	17	80	-	7	-	104
Elimination of depreciation for revalued assets	571	-	-	-	-	-	571
Balance at 31 December 2010	-	(694)	(3,468)	-	(248)	-	(4,410)
Net book value as at 1 January 2010	8,387	608	2,171	374	231	1,546	13,317
Net book value as at 31 December 2010	8,943	500	3,155	464	238	1,332	14,632

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 5. Property, plant and equipment (continued)

The table below provides information about the carrying amount that would have been recognised had the assets of the “Buildings” class been carried under the cost model:

	Buildings
Cost	
Balance at 1 January 2011	4,165
Additions	635
Transfers	684
Balance at 31 December 2011	5,484
Accumulated Depreciation and Impairment	
Balance at 1 January 2011	(392)
Charge for the period	(74)
Balance at 31 December 2011	(466)
Net book value as at 1 January 2011	3,773
Net book value as at 31 December 2011	5,018
Cost	
Balance at 1 January 2010	3,041
Additions	289
Transfers	835
Balance at 31 December 2010	4,165
Accumulated Depreciation and Impairment	
Balance at 1 January 2010	(279)
Charge for the period	(113)
Balance at 31 December 2010	(392)
Net book value as at 1 January 2010	2,762
Net book value as at 31 December 2010	3,773

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been put into operation.

Depreciation is charged once an asset is available for use.

Revaluation Starting from 1 January 2007 the Group adopted the revaluation model for property, plant and equipment comprising the “Buildings” class (see Note 3).

Property, plant and equipment items comprising the “Buildings” class were revalued as at 1 January 2007, as at 31 December 2008 and as at 31 December 2010 by independent appraisers.

Fair values were estimated using appropriate valuation techniques and were based on observable market prices in an active market.

As a result of the revaluation performed as at 31 December 2010, the Company's equity increased by RUB 14 million, comprising an increase in carrying value of Buildings of RUB 16 million, net of a related deferred tax liability of RUB 2 million and a revaluation decrease of RUB 290 million was recognised in profit or loss.

SO UPS GROUP**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Management determined that the carrying values of property, plant and equipment comprising class Buildings were not materially different from their fair values as at 31 December 2011. As a result no revaluation was made by the independent appraisers during the year.

Operating leases

The Group leases a number of land areas, buildings and other properties under operating lease. The lease payments due are determined based on the lease agreements and payable as follows:

	31 December 2011	31 December 2010
Under one year	211	197
Between one and five years	237	238
Over five years	501	522
Total	949	957

The above lease agreements are signed for 1 to 49 years for land areas and for short-term period (less than 1 year) for other properties and may be extended for a longer period. The lease payments are subject to review on a regular basis to reflect market rent prices.

Note 6. Intangible assets

	Computer software and licences	Construction in progress (computer software SCADA/EMS system)	Development costs	Total
Cost				
Balance at 1 January 2011	2,126	506	67	2,699
Additions	436	482	146	1,064
Transfers	42	-	(42)	-
Disposals	(2)	-	-	(2)
Balance at 31 December 2011	2,602	988	171	3,761
Accumulated amortisation and impairment				
Balance at 1 January 2011	(1,213)	-	-	(1,213)
Amortisation expense	(469)	-	-	(469)
Disposals	2	-	-	2
Balance at 31 December 2011	(1,680)	-	-	(1,680)
Net book value				
Balance at 1 January 2011	913	506	67	1,486
Balance at 31 December 2011	922	988	171	2,081

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Note 6. Intangible assets (continued)

	Computer software and licences	Construction in progress (computer software SCADA/EMS system)	Development costs	Total
Cost				
Balance at 1 January 2010	1,667	453	113	2,233
Additions	401	53	13	467
Transfers	59	-	(59)	-
Disposals	(1)	-	-	(1)
Balance at 31 December 2010	2,126	506	67	2,699
Accumulated amortisation and impairment				
Balance at 1 January 2010	(885)	-	-	(885)
Amortisation expense	(329)	-	-	(329)
Disposals	1	-	-	1
Balance at 31 December 2010	(1,213)	-	-	(1,213)
Net book value				
Balance at 1 January 2010	782	453	113	1,348
Balance at 31 December 2010	913	506	67	1,486

Note 7. Other non-current assets

	31 December 2011	31 December 2010
Advances to suppliers	1,879	1,375
Financial assets available-for-sale	105	114
Trade receivables	11	42
Non-current portion of value added tax recoverable	16	26
Total	2,011	1,557

Advances to suppliers as at 31 December 2011 included advances given to contractors for construction of administrative and production buildings in the amount of RUB 1,706 million. Advances to suppliers as at 31 December 2010 included advances for agreement between the Company and Siemens AG for the acquisition of new SCADA/EMS systems (computer software “Supervisory Control And Data Acquisition”) in the amount of RUB 486 million.

Financial assets available-for-sale relate to the Group contributions accumulated in the solidary and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 In millions of Russian Roubles (RUB)

Note 8. Accounts receivable and prepayments

	31 December 2011	31 December 2010
Trade receivables (net of provision for impairment of RUB 144 million as at 31 December 2011 and RUB 63 million as at 31 December 2010)	638	165
Other receivables	123	78
Financial accounts receivable and prepayments	761	243
Advances to suppliers	30	99
Value added tax recoverable	125	100
Non-financial accounts receivable and prepayments	155	199
Total	916	442

Tax prepayments balances will be settled by means of offset against future tax liabilities.

Management has determined the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows. Management believes that the Group will be able to realise the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value of accounts receivable approximates their fair value.

Note 9. Equity

Share capital

	31 December 2011	31 December 2010
Issued and fully paid:		
Registered share capital:		
Ordinary shares	2,576	2,576
Share premium	7,800	7,800
Total Share capital	10,376	10,376

As at 31 December 2011 the total number of authorised ordinary shares was 3,810,560,564 (31 December 2010: 3,810,560,564) with a nominal value per share of 1 (one) RUB each, including the issued, fully paid and registered ordinary shares of 2,576,367,429 (31 December 2010: 2,576,367,429).

Dividends

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

In 2011 no dividends were declared or paid for the years ended 31 December 2011 and 31 December 2010, respectively.

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Note 9. Equity (continued)

Contribution from the shareholder

In 2009 the Company issued non-interest-bearing promissory notes in the amount of RUB 1,819 million payable on demand but not earlier than 31 December 2010. In 2010 the effect of the discount on the issued promissory notes of RUB 145 million, net of income tax, was recognised directly in equity as a contribution from the shareholder.

The effective interest rate applied was 11.04%.

In February 2011 the above non-interest-bearing promissory notes for the amount of RUB 1,819 million were exchanged for non-interest bearing notes of the Company payable on demand but no earlier than 1 March 2013. The effect of the discount on the reissued promissory notes of RUB 225 million, net of income tax, was recognised directly in equity as a contribution from the shareholder.

The effective interest rate applied was 8.42%.

Note 10. Current and non-current debt

	Currency	Effective interest rate	Due	31 December 2011	31 December 2010
Non-current debt					
Notes payable	RUB	0 %	2013	1,655	-
Notes payable	RUB	7.00 %	2012	-	575
Total non-current debt				1,655	575
Current debt					
Notes payable	RUB	7.00%		607	-
Notes payable	RUB	0%		-	1,819
Total current debt				607	1,819
Total current and non-current debt				2,262	2,394

Debt maturity

	31 December 2011	31 December 2010
Due for repayment		
Before one year	607	1,819
Between one and two years	1,655	575
Between two and three years	-	-
Between three and four years	-	-
Between four and five years	-	-
After five years	-	-
Total	2,262	2,394

The Group has not entered into hedging arrangements in respect of its foreign currency obligations or interest rate exposure.

During 2007 the Company issued interest-bearing promissory notes (with a fixed interest rate of 7% per annum) for the total amount of RUB 469 million payable on demand but not earlier than 31 December 2012.

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Note 11. Retirement benefit obligations

The tables below provide information about benefit obligations and actuarial assumptions used for the year ended 31 December 2011 and 31 December 2010.

Amounts recognised in the Statement of Financial Position:

	31 December 2011	31 December 2010
Present value of obligations	1,104	1,242
Deficit in plan	1,104	1,242
Net actuarial loss not recognised in the Statement of Financial Position	(173)	(301)
Unrecognised past service cost	(7)	(60)
Net liability in the Statement of Financial Position	924	881

Amounts recognised in the Statement of Comprehensive Income:

	Year ended 31 December 2011	Year ended 31 December 2010
Current service cost	58	54
Past service cost	-	5
Interest cost	95	109
Recognised actuarial loss	13	21
Curtailed effect	(30)	-
Total	136	189

Changes in the present value of the Company's defined benefit obligation and plan assets are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Benefit obligations		
Benefit obligations as at 1 January	1,242	1,234
Current service cost	58	54
Past service cost	(51)	-
Interest cost	95	109
Actuarial losses on obligation	(106)	(47)
Benefits paid	(93)	(108)
Curtailed effect	(41)	-
Benefit obligations as at 31 December	1,104	1,242

The Group expects to contribute RUB 66 million to the defined benefit plans during the year ending 31 December 2012.

Principal actuarial assumptions are as follows:

	31 December 2011, %	31 December 2010, %
Discount rate	8.50	8.00
Salary increase	7.50	7.50
Inflation	6.00	6.00

Life expectancies (at standard age of retirement) are as follows:

	31 December 2011	31 December 2010
Male aged 60	14	14
Female aged 55	23	23

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Note 12. Accounts payable

	31 December 2011	31 December 2010
Payroll liabilities	917	716
Trade payables	473	330
Other creditors	41	92
Total	1,431	1,138

Note 13. Taxes payable

	31 December 2011	31 December 2010
Value added tax	440	338
Property tax	81	70
Unified social tax	26	20
Employee taxes	78	62
Other taxes	17	11
Total	642	501

Note 14. Finance income and finance costs

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expense (debt)	(33)	(126)
Interest costs (benefit plans)	(95)	(109)
Unwinding of discount of non-interest promissory notes	(117)	(181)
Finance costs	(245)	(416)
Interest income	144	160
Effect of discounting of non-current accounts receivable	1	1
Foreign exchange gain	16	217
Finance income	161	378
Net finance costs	(84)	(38)

Note 15. Income tax

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax charge	(1,119)	(706)
Deferred income tax benefit	24	69
Total income tax expense	(1,095)	(637)

During 2011, the Group was subject to a 20% income tax rate (in 2010: 20%).

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Note 15. Income tax (continued)

Reconciliation between the theoretical and the actual income tax charge is provided below:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	4,611	2,290
Theoretical tax charge at the applicable tax rate	(922)	(458)
Tax effect of items which are not deductible or assessable for taxation purposes	(173)	(95)
Underprovided in prior years	-	(84)
Total income tax expense	(1,095)	(637)

Tax effects of components of other comprehensive income:

	Year ended 31 December 2011			Year ended 31 December 2010		
	Before tax	Tax charge	After tax	Before tax	Tax charge	After tax
Revaluation of property and plant equipment	-	-	-	16	(2)	14
Net change in fair value of available-for-sale financial assets	6	(1)	5	13	(3)	10
Total	6	(1)	5	29	(5)	24

Deferred income tax. Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred income tax assets and liabilities are measured at 20%, the rate expected to be applicable when the assets or liabilities will reverse.

Deferred income tax assets/(liabilities)	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	Recognised directly in equity	31 December 2011
Property, plant and equipment	(1,068)	(52)	-	-	(1,120)
Non-current debt	-	23	-	(56)	(33)
Pension obligation	176	10	(1)	-	185
Accounts payable and accrued charges	84	29	-	-	113
Accounts receivable	34	(30)	-	-	4
Intangible assets	64	36	-	-	100
Others	(8)	8	-	-	-
Total deferred income tax assets/(liabilities), net	(718)	24	(1)	(56)	(751)

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Note 15. Income tax (continued)

Deferred income tax assets/(liabilities)	1 January 2010	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2010
Property, plant and equipment	(1,063)	(3)	(2)	(1,068)
Current debt	(36)	36	-	-
Pension obligation	160	19	(3)	176
Accounts payable and accrued charges	65	19	-	84
Accounts receivable	48	(14)	-	34
Intangible assets	37	27	-	64
Others	7	(15)	-	(8)
Total deferred income tax assets/(liabilities), net	(782)	69	(5)	(718)

Deferred income tax assets are recognised to the extent that it is probable that future profits will be available against which the Group can utilize the benefits therefore. Temporary differences on property, plant and equipment relate to differences in depreciation rates and revaluation.

In October 2007 RAO UES transferred the shares of JSC "NIIPT" amounting to RUB 1,028 million as a contribution to the share capital of JSC "SO UPS". The tax base of the shares was determined according to the transferor accounting data of RUB 0.028 million. As at 31 December 2011 the Group has not recognised a deferred tax liability in amount of RUB 205 million (31 December 2010: RUB 205 million) in respect of temporary difference associated with the investment in this subsidiary as the Group is able to control the timing of the reversal of this temporary difference and does not intend to reverse it in the foreseeable future.

Note 16. Commitments

Capital commitments. Future capital expenditures for which contracts have been signed amounted to RUB 2,055 million as at 31 December 2011 (31 December 2010: RUB 1,982 million).

Note 17. Contingencies

Insurance

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

Legal proceedings

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 In millions of Russian Roubles (RUB)

Note 17. Contingencies (continued)

Taxation

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

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

Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Note 18. Financial instruments and risk management

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Management Committee is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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Note 18. Financial instruments and risk management (continued)

The Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The oversight role is assigned to Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures.

Financial instruments by categories:

	Loans and accounts receivable	Other financial liabilities	Total
At 31 December 2011			
Other non-current assets (Note 7)	11	-	11
Accounts receivable and prepayments (Note 8)	761	-	761
Other investments	200	-	200
Cash and cash equivalents	7,431	-	7,431
Total financial assets	8,403	-	8,403
Non-current debt (Note 10)	-	1,655	1,655
Current debt (Note 10)	-	607	607
Accounts payable (Note 12)	-	1,431	1,431
Total financial liabilities	-	3,693	3,693
At 31 December 2010			
Other non-current assets (Note 7)	42	-	42
Accounts receivable and prepayments (Note 8)	243	-	243
Cash and cash equivalents	6,561	-	6,561
Total financial assets	6,846	-	6,846
Non-current debt (Note 10)	-	575	575
Current debt (Note 10)	-	1,819	1,819
Accounts payable (Note 12)	-	1,138	1,138
Total financial liabilities	-	3,532	3,532

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist of cash and cash equivalents and trade receivables principally.

At the reporting date the maximum exposure to credit risk was:

	Book value	
	At 31 December 2011	At 31 December 2010
Accounts receivable and prepayments (Note 8)	761	243
Other investments	200	-
Cash and cash equivalents	7,431	6,561
Total financial assets	8,392	6,804

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Note 18. Financial instruments and risk management (continued)

a) Cash

The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening.

Cash in bank	Rate	Rating agency	31 December 2011	31 December 2010
JSC The All-Russia Bank of Development of Regions	Ba2 (stable)	Moody's Investors Service	5,425	5,164
CJSC Raiffeisenbank Austria	Baa3 (negative)	Moody's Investors Service	713	619
JSC Eurofinance Mosnarbank	Ba3 (stable)	Moody's Investors Service	632	299
CJSC VTB 24	Baa1 (stable)	Moody's Investors Service	228	127
JSC Bank Vozrojdenie	Ba3 (stable)	Moody's Investors Service	48	-
Other	-	-	385	352
Total cash and cash equivalents			7,431	6,561

b) Accounts receivable

Credit risk related to accounts receivable is managed at the Group level. In most cases the Group does not calculate their customers' credit status but rates their creditworthiness on the basis of the financial position, prior experience and other factors.

The Group's trade customers principally represent electricity utilities entities. The table below shows the net balances of main trade customers:

	At 31 December 2011	At 31 December 2010
Irkutskenergo	114	-
OGK-3	74	64
Mosenergosbyt	18	-
TGK-2	60	-
Solikamskaya TEC	13	-
InterRao EES	19	17
Novo-Rysanskaya TEC	-	20
Tverskie kommunalnyi systemy	5	12
Lukoil-Volgogradenergo	10	-
Experimentalnya TES	2	9
Rubzovskiy teplovoy kompleks	10	-
Others	436	121
Total	761	243

Credit risk related to accounts receivable is systematically monitored and is considered when the provision for impairment is made. The carrying amount of accounts receivable, net of the provision for impairment, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment already recorded.

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Note 18. Financial instruments and risk management (continued)

The table below shows the movement in the allowance for impairment in respect of trade receivables (see Note 8) during the year:

	2011	2010
Balance at 1 January	63	26
Increase during the year	89	50
Amounts written off against trade receivables	-	-
Decrease due to reversal	(8)	(13)
Balance at 31 December	144	63

The provision for impairment in respect of receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

As at 31 December 2011 the receivables past due for which no allowance was recorded amounted to RUB 64 million (at 31 December 2010: RUB 13 million). This was caused by the respective counterparties' failure to pay.

The table below shows the aging of the receivables:

	At 31 December 2011		At 31 December 2010	
	Gross	Impairment	Gross	Impairment
Not past due	697	-	230	-
Past due 0 to 1 months	3	-	-	-
Past due 1 to 3 months	50	-	18	6
Past due 3 to 6 months	63	53	20	20
Past due 6 months to 1 year	29	29	23	23
Past due more than 1 year	63	62	15	14
Total	905	144	306	63

Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the objective of minimising such losses, such as maintaining sufficient cash and other highly liquid current assets.

The table below shows the financial liability contractual maturity dates, including the estimated amounts of interest payments as at 31 December:

	Book value	Contractual		1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
		cash flows	to 12 month:					
At 31 December 2011								
Promissory notes	2,262	2,426	607	1,819	-	-	-	-
Accounts payable	1,431	1,431	1,431	-	-	-	-	-
Total	3,693	3,857	2,038	1,819	-	-	-	-
At 31 December 2010								
Promissory notes	2,394	2,460	1,819	641	-	-	-	-
Accounts payable	1,138	1,138	1,138	-	-	-	-	-
Total	3,532	3,598	2,957	641	-	-	-	-

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Note 18. Financial instruments and risk management (continued)

Non-interest bearing promissory notes with a nominal value of RUB 1,819 million (2010: RUB 1,819 million) have a maturity of "1 year to 2 years". As at the reporting date the Company has the absolute right to postpone the repayment of this obligation for at least 12 months after the balance sheet date.

Market risk

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

The Group takes on exposure to market risks. Market risks arise from (a) assets and liabilities in foreign currencies, and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

a) *Foreign exchange risk.* The Group operates within the Russian Federation. The majority of the Group's purchases and borrowings are denominated in RUB. The Group does not have arrangements to hedge foreign exchange risks of the Group's operations.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

<i>In millions of</i>	RUB 2011	EUR 2011	RUB 2010	EUR 2010
Cash	482	12	472	12
Gross exposure	482	12	472	12
Net exposure	482	12	472	12

The following significant exchange rates applied during the year:

<i>in RUB</i>	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
EUR 1	40.8848	40.2980	41.6714	40.3331

Sensitivity analysis

A strengthening of the RUB against the euro at 31 December would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange changes rate variances were different, as indicated below.

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Note 18. Financial instruments and risk management (continued)

Effect in millions of RUB

	Strengthening Profit or loss	Weakening Profit or loss
31 December 2011		
EUR (5% movement)	24	(24)
31 December 2010		
EUR (5% movement)	24	(24)

b) *Interest rate risk.* The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long term borrowings. The Group has no significant interest bearing asset.

Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimize potential adverse effect on the financial performance of the Group.

Fair value

Management believes that the fair value of financial assets and liabilities is not significantly different from their carrying amounts. The book value less impairment provision of trade receivables is assumed to approximate their fair value due to the short-term nature of the receivables. The fair value of financial liabilities for the purpose of disclosure in the financial statements is estimated by discounting future contractual cash flows at the current market interest rate that is available for the Group for similar financial instruments.

The maximum exposure to each type of risk is limited by fair value of each class of financial instruments.

	31 December 2011		31 December 2010	
	Book value	Fair value	Book value	Fair value
Other non-current assets (Note 7)	11	11	42	42
Financial assets available-for-sale (Note 7)	105	105	114	114
Other investments	200	200	-	-
Accounts receivable (Note 8)	761	761	243	243
Cash and cash equivalents	7,431	7,431	6,561	6,561
Non-current debt (Note 10)	1,655	1,655	575	575
Current debt (Note 10)	607	607	1,819	1,819
Accounts payable (Note 12)	1,431	1,431	1,138	1,138