JSC “IDGC of Centre”

Consolidated Financial Statements
for the year ended 31 December 2012

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Auditors' Report

To the Shareholders and Board of Directors

JSC Interregional Distribution Grid Company of Centre

We have audited the accompanying consolidated financial statements of JSC Interregional Distribution Grid Company of Centre (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, 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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

Titova T.E., Deputy Director, (power of attorney dated 28 October 2011 No. 50/11)

ZAO KPMG

1 April 2013

Moscow, Russian Federation

Thousands of Russian Roubles, unless otherwise stated

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	7	69,984,035	69,041,226
Operating expenses	8	(63,297,658)	(61,062,777)
Other income		869,397	953,357
Results from operating activities		**7,555,774**	**8,931,806**
Finance income	10	172,893	117,763
Finance costs	10	(1,984,548)	(1,674,052)
Net finance costs		**(1,811,655)**	**(1,556,289)**
Profit before income tax		**5,744,119**	**7,375,517**
Income tax expense	11	(1,315,863)	(1,841,314)
Profit and total comprehensive income for the year		**4,428,256**	**5,534,203**
Profit and total comprehensive income attributable to:			
Owners of the Company		4,404,801	5,531,533
Non-controlling interests		23,455	2,670
Profit and total comprehensive income for the year		**4,428,256**	**5,534,203**
Earnings per share – basic and diluted (in Russian Roubles)	21	0.10	0.13

These consolidated financial statements were approved on 1 April 2013:

Acting General Director

O.Y. Isaev

Acting Chief Accountant

L.A. Sklyarova

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 43.

Thousands of Russian Roubles, unless otherwise stated

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	12	71,360,324	62,195,991
Intangible assets	13	696,842	945,109
Investments and financial assets	15	543,015	533,976
Other non-current assets	16	161,954	173,789
Total non-current assets		**72,762,135**	**63,848,865**
Current assets			
Cash and cash equivalents	17	971,592	2,646,152
Trade and other receivables	18	13,472,357	8,409,867
Income tax receivable		841,517	456,905
Inventories	19	1,520,647	1,445,720
Other current assets		2,810	9,286
Total current assets		**16,808,923**	**12,967,930**
Total assets		**89,571,058**	**76,816,795**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		4,221,794	4,221,794
Additional paid-in capital		88,660	88,660
Retained earnings		38,239,326	34,256,704
Total equity attributable to equity holders of the Company		**42,549,780**	**38,567,158**
Non-controlling interests		34,025	10,570
Total equity		**42,583,805**	**38,577,728**
Non-current liabilities			
Loans and borrowings	22	26,295,744	20,070,000
Finance lease liability	23	141,392	400,360
Employee benefits	24	2,248,559	2,083,121
Deferred tax liabilities	14	4,300,817	4,006,752
Other non-current liabilities		441,277	353,592
Total non-current liabilities		**33,427,789**	**26,913,825**
Current liabilities			
Loans and borrowings	22	207,002	1,167,320
Finance lease liability	23	400,243	466,376
Trade and other payables	26	11,144,889	8,484,681
Employee payables	25	1,054,997	946,413
Income tax payable		-	542
Other taxes and contributions payable	27	752,333	259,910
Total current liabilities		**13,559,464**	**11,325,242**
Total liabilities		**46,987,253**	**38,239,067**
Total equity and liabilities		**89,571,058**	**76,816,795**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 43.

Thousands of Russian Roubles, unless otherwise stated

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax		**5,744,119**	**7,375,517**
Adjustments for:			
Depreciation and amortisation	8	7,448,369	6,284,802
Allowance for impairment of accounts receivable	8	561,228	477,586
Net finance costs	10	1,811,655	1,556,289
Provision for inventory obsolescence		(91,822)	(26,990)
Loss on disposal of property, plant and equipment and intangible assets		157,781	162,888
Bad debts written-off	8	15,749	21,237
Adjustment for other non-cash transactions		(30,856)	(47,299)
Cash flows from operating activities before changes in working capital		**15,616,223**	**15,804,030**
Change in trade and other receivables		(5,639,518)	(1,707,913)
Change in inventories		16,895	(68,305)
Change in other assets		44,013	14,408
Change in trade and other payables		3,278,523	805,716
Change in employee payables		108,584	119,146
Change in employee benefits		19,855	99,145
Change in other liabilities		80,243	121,888
Change in other taxes payable		492,423	98,601
Cash flows from operations before income taxes and interest paid		**14,017,241**	**15,286,716**
Interest paid		(1,997,026)	(1,487,730)
Income tax paid		(1,476,080)	(981,244)
Cash flows from operating activities		**10,544,135**	**12,817,742**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(16,685,439)	(15,716,156)
Proceeds from disposal of property, plant and equipment and intangible assets		57,573	56,893
Interest received	10	139,149	117,763
Cash flows used in investing activities		**(16,488,717)**	**(15,541,500)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans and borrowings		6,333,063	7,611,836
Repayment of loans and borrowings		(1,188,014)	(1,340,629)
Dividends paid		(400,837)	(579,203)
Repayment of finance lease liabilities		(474,190)	(580,983)
Cash flows from financing activities		**4,270,022**	**5,111,021**
Net (decrease)/increase in cash and cash equivalents		(1,674,560)	2,387,263
Cash and cash equivalents at beginning of year		2,646,152	258,889
Cash and cash equivalents at end of year	17	**971,592**	**2,646,152**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 43.

Thousands of Russian Roubles, unless otherwise stated

	Attributable to shareholders of the Company					
	Ordinary share capital	**Additional paid in capital**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2011	**4,221,794**	**88,660**	**29,336,103**	**33,646,557**	**7,900**	**33,654,457**
Profit for the year	-	-	5,531,533	5,531,533	2,670	5,534,203
Total comprehensive income for the year	**-**	**-**	**5,531,533**	**5,531,533**	**2,670**	**5,534,203**
Transactions with owners, recorded directly in equity						
Dividends declared	-	-	(610,932)	(610,932)	-	(610,932)
Total transactions with owners, recorded directly in equity	**-**	**-**	**(610,932)**	**(610,932)**	**-**	**(610,932)**
At 31 December 2011	**4,221,794**	**88,660**	**34,256,704**	**38,567,158**	**10,570**	**38,577,728**
Profit for the year	-	-	4,404,801	4,404,801	23,455	4,428,256
Total comprehensive income for the year	**-**	**-**	**4,404,801**	**4,404,801**	**23,455**	**4,428,256**
Transactions with owners, recorded directly in equity						
Dividends declared	-	-	(422,179)	(422,179)	-	(422,179)
Total transactions with owners, recorded directly in equity	**-**	**-**	**(422,179)**	**(422,179)**	**-**	**(422,179)**
At 31 December 2012	**4,221,794**	**88,660**	**38,239,326**	**42,549,780**	**34,025**	**42,583,805**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 – 43.

1 BACKGROUND

(a) The Group and its operations

Joint-Stock Company "IDGC of Centre" (hereafter, the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 17 December 2004 based on Resolution no. 154p of 9 December 2004 and pursuant to the Board of Directors' decision (board of directors' meeting minutes no. 178 of 1 October 2004) and Management Board decision (Management Board minute no. 1102 of 15 November 2004) of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES").

The Company's registered office is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Company's de facto address is 2nd, Yamskaya, 4, Moscow, 127018, Russia.

The Group's principal activity is the transmission of electricity and the connection of customers to the electricity grid.

The Group consists of JSC "IDGC of Centre" and its subsidiaries, presented in Note 5.

As at 31 December 2012, the Government of the Russian Federation owned 54.52% shares of JSC IDGC Holding (at 31 December 2011 – 53.69%), which in turn owned 50.23% of the Company.

The Government of the Russian Federation influences the Group's activities through setting transmission tariffs.

(b) Russian 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.

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements (hereinafter "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for investments at fair value through profit or loss; and property, plant and equipment which was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2007.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these Financial Statements are presented.

All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of estimates and judgements

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

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

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

- Note 28 – allowances for impairment of trade and other receivables;
- Note 29 – lease classification.

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

- Note 31 – contingencies.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current year presentation.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(iii) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(iv) Business combinations involving entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the acquired entity's IFRS financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of retained earnings. Any cash paid for the acquisition is recognised directly in equity.

(b) Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity, trade and other receivables, cash and cash equivalents.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

Loans and receivables

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

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 16 and Note 18, and cash and cash equivalents as presented in Note 17.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and highly liquid investments with maturities at initial recognition of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(f)(i)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be reliably measured are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group classifies non-derivative financial liabilities into the other financial liability category.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

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

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

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

The estimated useful lives of property, plant and equipment by type of facility are as follows:

- Buildings 15 – 50 years;
- Transmission networks 5 – 20 years;
- Equipment for electricity transformation 5 – 20 years;
- Other 1 – 30 years.

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

(iv) Leased assets

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

Other leases are operating leases and the leased assets are not recognised in the Group’s statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognised in profit or loss on a straight line basis over the lease term.

(d) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see 3 (a) (iii).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

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

- Patents and licenses 1 – 12 years;
- Computer software 1 – 10 years.

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

(e) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The cost of inventories is determined using the weighted average cost method.

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

(f) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

Impairment losses on available-for-sale equity securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity securities is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU (group of CGUs) on a pro rata basis.

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

(g) Provisions

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

(h) Revenue

Revenue from electricity transmission is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity transmitted. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. Revenue is recognised when electricity is activated and the customer is connected to the grid network or, for contracts where connection services are performed in stages, revenue is recognised in proportion to the stage of completion when an act of acceptance is signed by the customer.

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

(i) Finance income and costs

Finance income comprises interest income on cash balances and bank deposits, dividend income and changes in the fair value of financial assets at fair value through profit and loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, employee benefits, finance leases, changes in the fair value of financial assets at fair value through profit and loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualified asset are recognised in profit or loss using the effective interest method.

(j) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefits plan

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

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

The Group recognises all actuarial gains and losses arising from defined benefit plans in profit or loss in the period in which they arise.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted.

The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations as at reporting date and that are denominated in the same currency in which the benefits are expected to be paid.

The Group calculates obligation in respect of other long-term employee benefits using the projected unit credit method.

Interest cost as a result of discount release is recognised as finance costs in profit or loss.

Any actuarial gain or losses and past benefit costs are recognised in full amount in profit or loss in the period in which they occur.

(iv) Short-term benefits

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

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

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(m) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(n) Segment reporting

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

Segment results that are reported to the Board of Experts, the Group's operating decision making body, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(o) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing 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 and has not yet determined the potential effect of the amendments..

- 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 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.

- 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).

- 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 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.

- 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.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- 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 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 DETERMINATION OF FAIR VALUES

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

(a) Property, plant and equipment

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

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

(b) Investments in equity

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Thousands of Russian Roubles, unless otherwise stated

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(d) Inventories

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

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 SUBSIDIARIES

(a) List of subsidiaries

	Country of incorporation	31 December 2012 Ownership/voting, %	31 December 2011 Ownership/voting, %
OJSC “Energetic”	Russian Federation	100	100
OJCS “Yaroslavskaya Setevaya Company”	Russian Federation	51	51
OJSC “Yargorelectroset”	Russian Federation	100	100
OJSC “Energy Service Company”	Russian Federation	100	100
CJSC “Innovation and energy efficiency center”	Russian Federation	51	51

(b) Establishment of subsidiaries

(i) OJSC “Energy Service Company”

On 11 January 2011 the Group established a joint stock company “Energy Service Company”. The authorised capital of the subsidiary consists of 1,000 ordinary shares, par value RUB 100 per share. The Group is the sole shareholder of OJSC “Energy Service Company”.

(ii) CJSC “IEEC”

On 10 August 2011 the Group established a joint stock company “Innovation and energy efficiency center”. The authorised capital of the subsidiary consists of 10,000 ordinary shares, par value RUB 100 per share. The Group is 51% shareholder of CJSC “IEEC”.

6 OPERATING SEGMENTS

The Group has eleven reportable segments representing branches of the Company, as described below. These are the Group’s strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Board of Experts, the Group’s operating decision making body, reviews internal management reports on at least a quarterly basis.

“Others” include operations of subsidiaries and the head office branch. None of them meets any of the quantitative thresholds for determining reportable segments in 2012 or 2011.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Experts.

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

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Thousands of Russian Roubles, unless otherwise stated

(i) Information about reportable segments

As at and for the year ended 31 December 2012:

	Belgorod-energo	Bryansk-energo	Voronezh-energo	Kostroma-energo	Kurskenergo	Lipetsk-energo	Orelenergo	Smolensk-energo	Tambov-energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	11,684,303	5,347,847	7,330,108	3,603,216	5,740,527	8,136,794	3,242,440	4,833,209	3,551,958	7,442,193	6,574,231	-	**67,486,826**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	922,364	**922,364**
Revenue from connection services	77,553	78,113	90,275	40,637	104,320	70,310	76,820	44,384	9,890	393,289	171,052	208,325	**1,364,968**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	21,758	-	**21,758**
Other revenue	202,344	27,960	86,498	32,777	18,386	26,106	12,047	239,598	21,768	32,331	31,092	291,188	**1,022,095**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	1,169	480,262	**481,431**
Total revenues	**11,964,200**	**5,453,920**	**7,506,881**	**3,676,630**	**5,863,233**	**8,233,210**	**3,331,307**	**5,117,191**	**3,583,616**	**7,867,813**	**6,799,302**	**1,902,139**	**71,299,442**
Results from operating activities	**2,743,552**	**762,597**	**43,053**	**668,187**	**804,717**	**(711,651)**	**500,751**	**526,339**	**(15,732)**	**1,663,374**	**1,113,273**	**(1,881,484)**	**6,216,976**
Finance income	581	-	-	105	-	-	254	38	114	-	116	158,859	**160,067**
Finance costs	(385,933)	(21,481)	(39,172)	(80,960)	(95,237)	(110,230)	(122,055)	(142,561)	(182,108)	(263,964)	(193,107)	(39,948)	**(1,676,756)**
Reportable segment profit/(loss) before income tax	**2,358,200**	**741,116**	**3,881**	**587,332**	**709,480**	**(821,881)**	**378,950**	**383,816**	**(197,726)**	**1,399,410**	**920,282**	**(1,762,573)**	**4,700,287**
Depreciation and amortisation	1,972,933	286,986	533,515	358,272	557,194	696,265	241,281	450,737	260,517	434,615	491,832	134,027	**6,418,174**
Reportable segment assets	**21,121,299**	**5,592,672**	**10,304,058**	**4,882,904**	**7,190,207**	**13,433,256**	**3,274,558**	**6,160,369**	**4,171,254**	**10,438,052**	**9,042,487**	**5,996,355**	**101,607,471**
Property, plant and equipment	19,653,272	4,263,208	8,887,451	4,309,573	6,269,496	11,903,659	2,756,068	5,207,582	3,648,410	5,845,746	6,456,375	1,807,720	**81,008,560**
Reportable segment liabilities	**2,566,862**	**1,200,211**	**2,960,234**	**884,313**	**1,179,448**	**2,620,489**	**572,840**	**803,580**	**529,760**	**2,095,744**	**2,127,388**	**29,054,532**	**46,595,401**
Capital expenditure	4,715,566	537,152	2,072,014	1,030,576	1,041,826	2,053,897	520,849	1,196,395	398,856	733,013	1,509,369	301,271	**16,110,784**

Thousands of Russian Roubles, unless otherwise stated

As at and for the year ended 31 December 2011:

	Belgorod-energo	Bryansk-energo	Voronezh-energo	Kostroma-energo	Kurskenergo	Lipetsk-energo	Orelenergo	Smolensk-energo	Tambov-energo	Tverenergo	Yarenergo	Others	Total
Revenue from electricity transmission	11,098,769	4,981,555	7,813,487	3,445,684	5,630,453	8,494,207	3,026,351	4,389,976	3,123,363	7,320,000	6,346,722	-	**65,670,567**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	805,039	**805,039**
Revenue from connection services	51,811	72,253	193,487	43,293	610,488	48,494	17,732	69,498	13,971	296,877	103,891	299,128	**1,820,923**
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	154,842	-	**154,842**
Other revenue	227,345	35,935	75,223	29,499	20,194	46,385	21,172	233,815	25,498	32,119	32,704	408,084	**1,187,973**
Inter-segment revenue	-	-	-	-	-	91	-	-	59	-	79	26,277	**26,506**
Total revenues	**11,377,925**	**5,089,743**	**8,082,197**	**3,518,476**	**6,261,135**	**8,589,177**	**3,065,255**	**4,693,289**	**3,162,891**	**7,648,996**	**6,638,238**	**1,538,528**	**69,665,850**
Results from operating activities	**2,378,682**	**522,875**	**457,868**	**495,205**	**860,393**	**1,734,877**	**325,815**	**209,749**	**(204,100)**	**533,197**	**1,150,087**	**178,865**	**8,643,513**
Finance income	356	-	-	16,666	-	-	170	6,262	21	-	123	95,610	**119,208**
Finance costs	(228,128)	(3,307)	(47,503)	(49,565)	(72,892)	(45,403)	(97,269)	(99,859)	(105,319)	(252,717)	(48,763)	(83,186)	**(1,133,911)**
Reportable segment profit/(loss) before income tax	**2,150,910**	**519,568**	**410,365**	**462,306**	**787,501**	**1,689,474**	**228,716**	**116,152**	**(309,398)**	**280,480**	**1,101,447**	**191,289**	**7,628,810**
Depreciation and amortisation	1,717,775	232,310	424,083	255,645	506,439	599,362	183,921	342,732	208,307	369,245	392,258	104,943	**5,337,020**
Reportable segment assets	**17,474,557**	**4,428,924**	**8,291,771**	**4,153,302**	**6,838,435**	**12,261,628**	**2,895,812**	**5,016,102**	**3,742,331**	**8,705,332**	**6,270,997**	**7,365,657**	**87,444,848**
Property, plant and equipment	16,860,202	4,061,604	7,393,074	3,628,480	5,822,035	10,611,278	2,479,488	4,470,387	3,508,166	5,325,078	5,486,583	1,680,329	**71,326,704**
Reportable segment liabilities	**1,748,545**	**579,289**	**1,420,383**	**750,245**	**1,372,024**	**1,075,325**	**466,375**	**1,032,153**	**508,769**	**2,657,121**	**1,131,454**	**22,748,126**	**35,489,809**
Capital expenditure	3,817,650	620,574	1,755,451	1,025,946	820,518	2,093,790	503,747	1,284,030	924,112	1,174,503	1,137,913	424,288	**15,582,522**

Thousands of Russian Roubles, unless otherwise stated

(ii) Major customer

In 2012 revenue from one customer of the Group's segment (Belgorodenergo) represented approximately 13% (RUB 9,201,133 thousand) of the Group's total revenue (in 2011 - RUB 8,892,352 thousand or 13% of the Group's total revenue).

(iii) Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

Reconciliation of key segment items measured as reported to the Board of Experts with similar items in these Financial Statements is presented in the tables below.

Revenues	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Total revenue for reportable segments	71,299,442	69,665,850
Elimination of inter-segment revenue	(1,425,553)	(986,387)
Reclassification	110,146	361,763
Consolidated revenue	**69,984,035**	**69,041,226**

Profit before income tax	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Total profit before income tax for reportable segments	4,700,287	7,628,810
Adjustments for of property, plant and equipment	(526,885)	(412,947)
Recognition of financial assets related to employee benefit fund	(24,705)	(16,680)
Unused vacation and annual bonus provision	2,085	2,313
Recognition of employee benefit obligations	(165,438)	(254,367)
Adjustment for finance lease	306,452	411,660
Adjustment for allowance for impairment of account receivables	5,215	58,660
Provision for inventory obsolescence	167,558	26,990
Adjustment for litigation provision	1,357,262	-
Other adjustments	(77,712)	(68,922)
Consolidated profit before income tax	**5,744,119**	**7,375,517**

Assets	**31 December 2012**	**31 December 2011**
Total assets for reportable segments	101,607,471	87,444,848
Elimination of cost of investments in subsidiaries	(1,117,395)	(1,117,395)
Elimination of other inter-segment assets	(554,165)	(365,787)
Adjustments for net book value of property, plant and equipment	(9,633,559)	(9,135,368)
Recognition of financial assets related to employee benefit fund	343,349	368,054
Adjustment for allowance for impairment of account receivables	12,811	7,596
Provision for inventory obsolescence	-	(167,558)
Adjustment for deferred tax	(1,058,877)	(194,469)
Other adjustments	(28,577)	(23,126)
Consolidated total assets	**89,571,058**	**76,816,795**

Thousands of Russian Roubles, unless otherwise stated

Liabilities	**31 December 2012**	**31 December 2011**
Total liabilities for reportable segments	46,595,401	35,489,809
Elimination of inter-segment liabilities	(552,088)	(362,553)
Adjustment for finance lease	529,872	863,652
Unused vacation and annual bonus provision	-	2,085
Recognition of employee benefit obligations	2,248,559	2,083,121
Adjustment for deferred tax	(485,715)	156,742
Adjustment for litigation provision	(1,357,262)	-
Other adjustments	8,486	6,211
Consolidated total liabilities	**46,987,253**	**38,239,067**

7 REVENUE

	Year ended 31 December 2012	**Year ended 31 December 2011**
Electricity transmission	67,486,826	65,953,101
Connection services	1,364,968	1,820,923
Rent	61,446	62,901
Repairs and maintenance	127,552	217,569
Other	943,243	986,732
	69,984,035	**69,041,226**

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network.

In 2012 the Group recognised revenue amounting to RUB 2,810,678 thousand in respect of disagreements with two regional distribution entities concerning the amount of the electricity transmission. Management believes that they have appropriate ground for revenue recognition and assesses probability of winning legal proceedings in court as high.

In 2012 the Group recognized revenue along with impairment losses in respect of trade receivables for disagreements with several companies concerning tariffs and power applied amounting to RUB 1,255,057 thousand. Management believes that it is not probable that increase of benefits inflow will take place.

Thousands of Russian Roubles, unless otherwise stated

8 OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	24,132,056	23,252,980
Purchased electricity	8,684,119	9,052,287
Personnel costs (Note 9)	14,215,196	13,432,700
Depreciation and amortisation	7,448,369	6,284,802
Raw materials and supplies	2,376,595	2,149,983
Rent	582,143	576,615
Allowance for impairment of accounts receivable	561,228	477,586
Repairs, maintenance and installation services	534,659	467,218
Provisions	467,789	1,041,516
Electricity for own needs	399,343	481,654
Taxes other than income tax	377,445	348,930
Security	278,160	272,384
Information services	261,901	187,485
Insurance	126,031	163,385
Consulting, legal and audit services	90,520	66,471
Transportation costs	67,020	332,151
Telecommunication services	50,175	40,942
Bad debt written-off	15,749	21,237
Membership fee	1,462	6,413
Other	2,627,698	2,406,038
	63,297,658	**61,062,777**

9 PERSONNEL COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries and wages	9,589,684	8,839,084
Contribution to the state pension fund	2,191,246	2,234,582
Recognised actuarial loss	180,168	119,959
Compulsory social security contributions	607,774	611,558
Finance aid to employees and pensioners	493,087	415,052
Current service cost	73,325	101,759
Unused vacation provision	365,321	330,781
Annual bonus provision	286,385	216,240
Past service cost	(20,348)	139,725
Other personnel costs	448,554	423,960
	14,215,196	**13,432,700**

The average number of employees (including production and non production staff) was 31,177 in 2012 (2011: 31,184 employees).

Thousands of Russian Roubles, unless otherwise stated

10 FINANCE INCOME AND COSTS

Finance income	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Net change in fair value of financial investments at fair value through profit and loss	33,744	-
Interest income	139,149	117,763
	172,893	**117,763**
Finance costs		
Interest expense	1,653,001	1,133,601
Interest on finance lease liabilities	185,964	321,505
Net change in fair value of financial investments at fair value through profit and loss	-	63,724
Interest expense on employee benefits obligation	145,583	155,222
	1,984,548	**1,674,052**

11 INCOME TAX EXPENSE

The Group's applicable tax rate is the income tax rate of 20%.

	Year ended 31 December 2012	**Year ended 31 December 2011**
Current tax expense		
Current year	(1,138,286)	(1,750,546)
Adjustment for prior years	116,488	838,989
	(1,021,798)	**(911,557)**
Deferred tax expense		
Origination and reversal of temporary differences	(294,065)	(356,357)
Change in tax the base of property, plant and equipment	-	(573,400)
	(294,065)	(929,757)
	(1,315,863)	**(1,841,314)**

In 2011 the Group recalculated income tax for prior periods (2009-2010) related to the deductibility for tax purposes of certain operating expenses which were previously capitalised in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, in 2011 income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 838,989 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RUB 573,400 thousand in 2011.

Reconciliation of effective tax rate:

	Year ended 31 December 2012	**%**	**Year ended 31 December 2011**	**%**
Profit before income tax	5,744,119	100	7,375,517	100
Income tax expense at applicable tax rate	(1,148,824)	(20)	(1,475,103)	(20)
Adjustment for prior years	116,488	2	838,989	11
Change in tax base of property, plant and equipment	-	-	(573,400)	(8)
Net effect of other items which are not deductible/not taxable for taxation purposes	(283,527)	(5)	(631,800)	(9)
	(1,315,863)	**(23)**	**(1,841,314)**	**(26)**

Thousands of Russian Roubles, unless otherwise stated

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Transmission networks	Equipment for electricity transformation	Other	Construction in progress	Total
Deemed cost						
At 1 January 2011	12,924,300	27,484,495	15,119,039	6,804,782	4,479,093	66,811,709
Additions	54,409	58,609	36,007	525	16,362,118	16,511,668
Transfers	3,945,016	4,135,024	3,043,145	2,308,930	(13,432,115)	-
Disposals	(45,277)	(42,839)	(70,049)	(65,399)	(70,756)	(294,320)
Balance as at 31 December 2011	**16,878,448**	**31,635,289**	**18,128,142**	**9,048,838**	**7,338,340**	**83,029,057**
At 1 January 2012	16,878,448	31,635,289	18,128,142	9,048,838	7,338,340	83,029,057
Additions	41,149	53,061	26,791	149,726	16,196,208	16,466,935
Transfers	3,086,439	6,803,814	3,747,530	3,363,658	(17,001,441)	-
Disposals	(43,875)	(88,213)	(47,111)	(64,538)	(109,076)	(352,813)
Balance as at 31 December 2012	**19,962,161**	**38,403,951**	**21,855,352**	**12,497,684**	**6,424,031**	**99,143,179**
Accumulated depreciation						
At 1 January 2011	(1,907,520)	(7,836,166)	(3,050,241)	(2,239,110)	-	(15,033,037)
Depreciation for the year	(988,182)	(2,746,334)	(1,074,520)	(1,092,518)	-	(5,901,554)
Disposals	7,403	20,383	32,854	40,885	-	101,525
At 31 December 2011	**(2,888,299)**	**(10,562,117)**	**(4,091,907)**	**(3,290,743)**	**-**	**(20,833,066)**
At 1 January 2012	(2,888,299)	(10,562,117)	(4,091,907)	(3,290,743)	-	(20,833,066)
Depreciation for the year	(1,027,219)	(3,199,908)	(1,298,624)	(1,568,581)	-	(7,094,332)
Disposals	14,604	52,989	25,412	51,538	-	144,543
At 31 December 2012	**(3,900,914)**	**(13,709,036)**	**(5,365,119)**	**(4,807,786)**	**-**	**(27,782,855)**
Net book value						
At 1 January 2011	**11,016,780**	**19,648,329**	**12,068,798**	**4,565,672**	**4,479,093**	**51,778,672**
At 31 December 2011	**13,990,149**	**21,073,172**	**14,036,235**	**5,758,095**	**7,338,340**	**62,195,991**
At 31 December 2012	**16,061,247**	**24,694,915**	**16,490,233**	**7,689,898**	**6,424,031**	**71,360,324**

As at 31 December 2012 construction in progress includes advance payments for property, plant and equipment of RUB 12,755 thousand (as at 31 December 2011: RUB 53,661 thousand).

Borrowing costs totalling RUB 278,438 thousand with a capitalisation rate of 7.524-10.44% during 2012 (during 2011: RUB 61,930 thousand with a capitalization rate of 7.524-9.96%) were included in the cost of property, plant and equipment and represent interest on loans.

Leased property, plant and equipment

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Title to the leased assets transfers to the Group at the end of each lease.

Thousands of Russian Roubles, unless otherwise stated

As at 31 December 2012 and 31 December 2011 the net book value of leased property, plant and equipment, accounted for as part of the Group's property, plant and equipment, was as follows:

	Land and Buildings	**Transmission networks**	**Equipment for electricity transformation**	**Other**	**Total**
Cost	51,306	65,204	2,109,135	242,352	2,467,997
Accumulated depreciation	(9,203)	(16,129)	(493,800)	(77,046)	(596,178)
Net book value at 31 December 2011	**42,103**	**49,075**	**1,615,335**	**165,306**	**1,871,819**
Cost	48,568	65,159	1,789,241	383,361	2,286,329
Accumulated depreciation	(11,180)	(20,398)	(456,020)	(107,376)	(594,974)
Net book value at 31 December 2012	**37,388**	**44,761**	**1,333,221**	**275,985**	**1,691,355**

13 INTANGIBLE ASSETS

	Software	**Licenses**	**Other intangible assets**	**Total**
Cost				
At 1 January 2011	483,091	117,013	1,169,870	1,769,974
Reclassification	(158,402)	1	158,401	-
Additions	161,612	426	82,269	244,307
Disposals	(109,985)	(117,156)	(14,512)	(241,653)
At 31 December 2011	**376,316**	**284**	**1,396,028**	**1,772,628**
At 1 January 2012	376,316	284	1,396,028	1,772,628
Reclassification	(6,707)	(284)	6,991	-
Additions	64,964	-	47,890	112,854
Disposals	(72,100)	-	(55,697)	(127,797)
At 31 December 2012	**362,473**	**-**	**1,395,212**	**1,757,685**
Accumulated amortisation				
At 1 January 2011	(160,548)	(91,543)	(406,353)	(658,444)
Reclassification	32,086	(1)	(32,085)	-
Amortisation for the year	(131,853)	(326)	(251,069)	(383,248)
Disposals	107,832	91,829	14,512	214,173
At 31 December 2011	**(152,483)**	**(41)**	**(674,995)**	**(827,519)**
At 1 January 2012	(152,483)	(41)	(674,995)	(827,519)
Reclassification	6,233	41	(6,274)	-
Amortisation for the year	(112,692)	-	(241,345)	(354,037)
Disposals	72,100	-	48,613	120,713
At 31 December 2012	**(186,842)**	**-**	**(874,001)**	**(1,060,843)**
Net book value				
At 1 January 2011	**322,543**	**25,470**	**763,517**	**1,111,530**
At 31 December 2011	**223,833**	**243**	**721,033**	**945,109**
At 31 December 2012	**175,631**	**-**	**521,211**	**696,842**

Thousands of Russian Roubles, unless otherwise stated

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Property, plant and equipment	12,032	14,061	(4,966,787)	(4,396,589)	(4,954,755)	(4,382,528)
Other non-current assets	223	424	-	-	223	424
Inventories	15,147	33,512	-	-	15,147	33,512
Trade and other receivables	11,024	147	-	(92,489)	11,024	(92,342)
Finance lease liabilities	105,974	172,730	-	-	105,974	172,730
Post employment benefit liability	238,288	210,799	-	-	238,288	210,799
Employee payables	138,137	122,598	-	-	138,137	122,598
Other	213,392	1,243	(68,247)	(73,188)	145,145	(71,945)
Deferred tax assets/(liabilities)	**734,217**	**555,514**	**(5,035,034)**	**(4,562,266)**	**(4,300,817)**	**(4,006,752)**

(b) Movements in temporary differences during the year

	1 January 2012	Recognised in profit or loss	31 December 2012
Property, plant and equipment	(4,382,528)	(572,227)	(4,954,755)
Other non-current assets	424	(201)	223
Inventories	33,512	(18,365)	15,147
Trade and other receivables	(92,342)	103,366	11,024
Finance lease liabilities	172,730	(66,756)	105,974
Post employment benefit liability	210,799	27,489	238,288
Employee payables	122,598	15,539	138,137
Other	(71,945)	217,090	145,145
	(4,006,752)	**(294,065)**	**(4,300,817)**

Thousands of Russian Roubles, unless otherwise stated

	1 January 2011	Recognised in profit or loss	31 December 2011
Property, plant and equipment	(3,523,268)	(859,260)	(4,382,528)
Other non-current assets	719	(295)	424
Inventories	39,052	(5,540)	33,512
Trade and other receivables	(106,758)	14,416	(92,342)
Finance lease liabilities	288,927	(116,197)	172,730
Post employment benefit liability	186,083	24,716	210,799
Employee payables	110,972	11,626	122,598
Other	(72,722)	777	(71,945)
	(3,076,995)	**(929,757)**	**(4,006,752)**

15 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2012	31 December 2011
Financial assets related to the employee benefit fund	343,349	368,054
Investments designated at fair value through profit and loss	197,732	163,988
Available-for-sale financial assets	1,934	1,934
	543,015	**533,976**

Investments designated at fair value through profit and loss represent investments in shares of JSC OGC-4 and other securities, which are listed on MICEX-RTS, recorded at fair market value (belong to Level 1 in the fair value hierarchy).

Financial assets related to employee benefit fund

Financial assets related to the employee benefit fund relate to the Group's 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 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group.

The Group's exposure related to credit risks and impairment losses related to other investments and financial assets is disclosed in Note 28.

16 OTHER NON-CURRENT ASSETS

	31 December 2012	31 December 2011
Trade accounts receivable	90,538	99,353
Non-current prepayments	5,656	3,562
Other accounts receivable	30,184	36,289
Other accounts receivable impairment allowance	(1,114)	(2,123)
Other assets	36,690	36,708
	161,954	**173,789**

Thousands of Russian Roubles, unless otherwise stated

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash in bank accounts and bank deposits with maturities at initial recognition of less than three months from the acquisition date amounted to RUB 971,592 thousand denominated in roubles (31 December 2011: RUB 2,646,152 thousand).

18 TRADE AND OTHER RECEIVABLES

	31 December 2012	**31 December 2011**
Trade receivables	13,959,355	8,382,808
Trade receivables impairment allowance	(2,108,327)	(1,619,217)
Prepayments	528,193	294,764
Prepayments impairment allowance	(1,601)	(6,646)
VAT recoverable	652,311	447,442
Taxes receivable	22,159	449,281
Other receivables	617,015	624,986
Other receivables impairment allowance	(196,748)	(163,551)
	13,472,357	**8,409,867**

For more detailed information concerning the Group's exposure to credit risks and impairment losses related to trade and other receivables refer to Note 28.

19 INVENTORIES

	31 December 2012	**31 December 2011**
Materials and supplies	1,576,823	1,607,195
Inventory for resale	19,560	6,083
Total inventories	**1,596,383**	**1,613,278**
Less: provision for inventory obsolescence	(75,736)	(167,558)
Total	**1,520,647**	**1,445,720**

Thousands of Russian Roubles, unless otherwise stated

20 EQUITY

(a) Share capital

	Ordinary shares	
	31 December 2012	**31 December 2011**
Issued shares, fully paid	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10

(b) Dividends

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

At the annual shareholders meeting held on 17 June 2011 the decision was made to distribute the Company's profit for the year 2010 to dividends in the amount of RUB 610,932 thousand and to pay dividends for the year 2010 in the amount of RUB 0.01447 per ordinary share of the Company in cash.

At the annual shareholders meeting held on 15 June 2012 the decision was made to distribute the Company's profit for the year 2011 to dividends in the amount of RUB 422,179 thousand and to pay dividends for the year 2011 in the amount of RUB 0.01 per ordinary share of the Company in cash.

21 EARNINGS PER SHARE

The calculation of earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

Number of shares unless otherwise stated	**Ordinary shares**	**Ordinary shares**
	31 December 2012	**31 December 2011**
Authorised shares	42,217,941,468	42,217,941,468
Par value (in RUB)	0.10	0.10
Weighted average number of shares	42,217,941,468	42,217,941,468
Profit for the year attributable to shareholders	**4,404,801**	**5,531,533**
Earning per share (in RUB): basic and diluted	**0.10**	**0.13**

Thousands of Russian Roubles, unless otherwise stated

22 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group’s loans and borrowings. For more information about the Group’s exposure to interest rate risk, refer to Note 28.

Long-term loans and borrowings

Name of lender		**Effective interest rate 31 December 2012**	**Effective interest rate 31 December 2011**	**Maturity**	**31 December 2012**	**31 December 2011**
OJSC “Alfa-Bank”	Unsecured	7.8-9.5%	7.8-9.5%	2017	2,003,115	2,472,748
OJSC “Bank VTB”	Unsecured	10.17%	9.96%	2018	3,922,179	3,921,070
OJSC “Gazprombank”	Unsecured	-	8.0-9.6%	2012	-	652,447
OJSC “Rosbank”	Unsecured	8.00%	8.00%	2015	3,801,661	3,800,833
OJSC “Sberbank”	Unsecured	7.524-10.44%	7.524-8.4%	2014-2025	12,601,526	10,389,015
CJSC “Transcapitalbank”	Unsecured	13.50%	-	2015	111,978	-
Unsecured bond issues	Unsecured	9.044%	-	2015	4,061,797	-
					26,502,256	**21,236,113**
Less: current portion						
OJSC “Alfa-Bank”	Unsecured	7.8-9.5%	7.8-9.5%		3,115	472,748
OJSC “Bank VTB”	Unsecured	10.17%	9.96%		2,179	1,070
OJSC “Gazprombank”	Unsecured	-	8.0-9.6%		-	652,447
OJSC “Rosbank”	Unsecured	8.00%	8.00%		1,661	833
OJSC “Sberbank”	Unsecured	7.524-10.44%	7.524-8.4%		85,426	39,015
CJSC “Transcapitalbank”	Unsecured	13.50%	-		40,022	-
Unsecured bond issues	Unsecured	9.044%	-		74,109	-
					206,512	**1,166,113**
Total long-term borrowings					**26,295,744**	**20,070,000**

All the Group’s borrowings are denominated in RUB and bear a fixed interest rate. The effective interest rate is the market interest rate applicable to the loan on the date of its receipt.

The carrying value of borrowings approximates their fair value.

Thousands of Russian Roubles, unless otherwise stated

Current borrowings and current portion of long-term borrowings

Name of lender		Effective interest rate	Effective interest rate	31 December 2012	31 December 2011
OJSC “Alfa-Bank”	Unsecured	7.8-9.5%	7.8-9.5%	3,115	472,748
OJSC “Bank VTB”	Unsecured	10.17%	9.96%	2,179	1,070
OJSC “Gazprombank”	Unsecured	-	8.0-9.6%	-	652,447
OJSC “Rosbank”	Unsecured	8.00%	8.00%	1,661	833
OJSC “Sberbank”	Unsecured	7.524-10.44%	7.524-8.4%	85,426	39,015
Joint-Stock Bank “Severgazbank”	Unsecured	10.00%	10-12%	490	1,207
CJSC “Transcapitalbank”	Unsecured	13.50%	-	40,022	-
Unsecured bond issues	Unsecured	9.044%	-	74,109	-
				207,002	**1,167,320**

As at 31 December 2012 no bank loans are secured over bank guarantees received.

On 17 October 2012 the Company issued unconvertible interest-bearing bonds to bearer, the total nominal amount of RUB 4,000,000,000 with a nominal interest rate of 8.95% per annum. Circulation period of the bonds is 3 years.

23 FINANCE LEASE

The finance lease liabilities are secured by the leased assets.

The Group leases production equipment and transportation vehicles under a number of finance lease agreements. Finance lease liabilities are payable as follows:

	At 31 December 2012		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	513,498	400,243	113,255
Between one and five years	157,361	141,392	15,969
	670,859	**541,635**	**129,224**

	At 31 December 2011		
	Future minimum lease payments	**Present value of minimum lease payments**	**Interest**
Less than one year	653,506	466,376	187,130
Between one and five years	470,798	400,360	70,438
	1,124,304	**866,736**	**257,568**

24 EMPLOYEE BENEFITS

The tables below provide information about the employee benefit obligations and actuarial assumptions used for the years ended 31 December 2012 and 31 December 2011.

Thousands of Russian Roubles, unless otherwise stated

(a) Changes in net liability of the defined benefit obligations

	31 December 2012	31 December 2011
Present value of defined benefit obligation	2,038,536	1,909,094
Unrecognised past service cost	210,023	174,027
Net liability in the Statement of financial position at 31 December	**2,248,559**	**2,083,121**

(b) Amounts recognised in profit or loss

	Year ended 31 December 2012	Year ended 31 December 2011
Current service cost	73,325	101,759
Interest expense	145,583	155,222
Past service cost	(20,348)	139,725
Recognised actuarial loss	180,168	119,959
Net expense	**378,728**	**516,665**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Present value of defined benefit obligation at 1 January	1,909,094	2,100,824
Current service cost	73,325	101,759
Interest expense	145,583	155,222
Actuarial losses	180,168	119,959
Benefits paid	(213,290)	(262,298)
Past service cost	(56,344)	(306,372)
Present value of defined benefit obligation at 31 December	**2,038,536**	**1,909,094**

(d) Actuarial assumptions

Principal actuarial assumptions are as follows:

	31 December 2012	31 December 2011
Discount rate, annual	7.10%	8.50%
Future salary increase, per year	5.00%	5.50%
Inflation rate, per year	5.00%	5.50%

(e) Expense recognised in profit or loss

	Year ended 31 December 2012	Year ended 31 December 2011
Operating expenses	233,145	361,443
Finance costs	145,583	155,222
	378,728	**516,665**

Thousands of Russian Roubles, unless otherwise stated

25 EMPLOYEE PAYABLES

	31 December 2012	31 December 2011
Salaries and wages payable	364,313	333,421
Unused vacation provision	357,847	321,724
Annual bonus provision	332,837	291,268
	1,054,997	**946,413**

Provision for annual bonuses includes bonuses and other similar payments accrued (including compulsory social security contributions) based on employees' performance.

26 TRADE AND OTHER PAYABLES

	31 December 2012	31 December 2011
Trade accounts payable	5,637,331	4,868,386
Advances received	3,791,171	1,947,872
Other payables and accrued expenses	1,716,387	1,668,423
	11,144,889	**8,484,681**

27 OTHER TAXES AND CONTRIBUTIONS PAYABLE

	31 December 2012	31 December 2011
Value added tax	325,675	15,896
Compulsory social security contributions	245,014	120,067
Property tax	63,666	14,027
Other taxes	117,978	109,920
	752,333	**259,910**

28 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Overview

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

- credit risk;
- liquidity risk;
- market risk.

The Group does not have any significant exposure to currency risk on sales, purchases and borrowings, because no significant sales, purchases, or borrowings are denominated in a currency other than the functional currency of the Company, which is the Russian Rouble.

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.

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

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

Thousands of Russian Roubles, unless otherwise stated

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

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

The customer base for electricity transmission services is limited to several distribution companies and a small number of large manufacturing/extraction enterprises. Payments are tracked weekly and electricity transmission customers are advised of any failures to submit timely payments. For quick collection and complete control of accounts receivable collection a working team was formed to reduce the Company's finance losses, caused by non-fulfilment or insufficient fulfilment by some contractors of their contractual obligations.

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

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

(ii) Exposure to credit risk

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

	31 December 2012	**31 December 2011**
Trade and other receivables	12,390,903	7,358,545
Investments and financial assets	543,015	533,976
Cash and cash equivalents	971,592	2,646,152
	13,905,510	**10,538,673**

Financial guarantees are disclosed in Note 31.

The Group's two most significant customers, regional distribution entities, account for RUB 4,520,030 thousand of the trade receivables carrying amount at 31 December 2012 (31 December 2011: RUB 2,227,664 thousand).

At 31 December 2012, the Group had outstanding trade receivables of RUB 2,802,092 thousand and prepayments for future electricity transmission of RUB 1,775,640 from two regional distribution companies.

The maximum exposure to credit risk for trade receivables (excluding other receivables) at the reporting date by type of customer was:

	Carrying amount at 31 December 2012	**Carrying amount at 31 December 2011**
Electricity transmission customers	11,591,240	6,457,536
Connection services customers	107,640	119,838
Other customers	242,686	285,570
	11,941,566	**6,862,944**

Thousands of Russian Roubles, unless otherwise stated

Impairment losses

The tables below analyse the Group’s trade and other receivables into relevant groups based on the past due periods:

	At 31 December 2012		At 31 December 2011	
	Gross	**Allowance**	**Gross**	**Allowance**
Not past due	6,594,313	(119,680)	3,179,262	(3,620)
Past due 0-3 months	3,603,571	(329,873)	2,049,914	(19,214)
Past due 3-6 months	1,966,473	(415,478)	1,322,700	(215,397)
Past due 6-12 months	1,388,214	(573,198)	1,522,458	(632,632)
Past due more than 12 months	1,144,521	(867,960)	1,069,102	(914,028)
	14,697,092	**(2,306,189)**	**9,143,436**	**(1,784,891)**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at 1 January	1,784,891	1,732,435
Increase during the period	1,734,317	704,001
Amounts written-off against receivables	(39,469)	(432,948)
Decrease due to reversal	(1,173,550)	(218,597)
Balance at 31 December	**2,306,189**	**1,784,891**

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors the risk of cash shortfalls by means of current liquidity planning. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. This approach is used to analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

To manage the liquidity risk, the Group has negotiated long-term and short-term credit lines with a pool of commercial banks, designated as highly rated banks.

As at 31 December 2012 the Group’s unused portion of long-term and short-term credit line facilities amounted to RUB 8,033,900 thousand (31 December 2011: RUB 5,500,000 thousand).

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

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2012					
Short-term and long-term bank loans including current portion	22,440,949	31,935,267	2,046,825	20,623,743	9,264,699
Unsecured bond issues	4,061,797	5,071,120	357,040	4,714,080	-
Finance lease liabilities	541,635	670,859	513,498	157,361	-
Trade and other payables	5,985,685	5,985,685	5,972,692	6,173	6,820
	33,030,066	**43,662,931**	**8,890,055**	**25,501,357**	**9,271,519**
Financial guarantees	**-**	**8,234**	**8,234**	**-**	**-**

Thousands of Russian Roubles, unless otherwise stated

	Carrying amount	Contractual cash flows	12 months or less	Between 1 and 5 years	More than 5 years
Liabilities as at 31 December 2011					
Short-term and long-term bank loans including current portion	21,237,320	31,332,061	2,929,879	16,439,980	11,962,202
Finance lease liabilities	866,736	1,124,304	653,506	470,798	-
Trade and other payables	5,359,092	5,359,092	5,350,613	-	8,479
	27,463,148	**37,815,457**	**8,933,998**	**16,910,778**	**11,970,681**
Financial guarantees	**-**	**755,334**	**755,334**	**-**	**-**

(d) Market risk

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

(i) 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 only through market value fluctuations of loans and borrowings. The interest rates on most long- and short-term loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Fixed rate instruments	**Carrying amount 31 December 2012**	**Carrying amount 31 December 2011**
Financial liabilities	27,044,381	22,104,056

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values

Management believes that at the reporting date the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

(f) Capital management

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

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

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

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

Thousands of Russian Roubles, unless otherwise stated

29 OPERATING LEASES

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

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

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

Operating lease rentals under non-cancellable leases are payable as follows:

	31 December 2012	**31 December 2011**
Less than one year	477,190	540,954
Between one year and five years	863,099	1,442,487
More than five years	3,538,313	3,577,175
	4,878,602	**5,560,616**

The amount of lease expense under operating leases recognised in profit or loss in 2012 was RUB 582,143 thousand (in 2011: RUB 576,615 thousand).

30 COMMITMENTS

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 4,640,503 thousand as at 31 December 2012 (net of VAT) (as at 31 December 2011: RUB 3,613,416 thousand).

31 CONTINGENCIES

(a) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has full insurance coverage for its production facilities and third party liability in respect of property, health and environmental damage arising from operation of dangerous production units. The Group has no insurance coverage against losses caused by business interruption.

(b) Litigation

The Group is a party to certain legal proceedings arising in the ordinary course of business. Management does not believe than these matters will have a material adverse effect on the Group’s financial position and operating results.

(c) Taxation contingencies

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

Thousands of Russian Roubles, unless otherwise stated

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 Financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(d) Environmental matters

The Company and its predecessors have operated in the electric transmission industry in the Russian Federation for many years. The enforcement of environmental regulations in the Russian Federation is evolving and the enforcement posture of Government authorities is continually being reconsidered. Management periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(e) Other contingencies

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. However, based on the lack of elaboration of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property ("last-mile"), as at 31 December 2012 the Company was a party in litigation relating to a claim submitted to the court by OJSC Novolipetsk Steel complex regarding the legitimacy of the revenue recognition from the transmission of electricity via "last-mile" grids in the period from July 2008 to September 2011in the amount of RUB 5,122,123 thousand.

On 27 February 2013 the appeal of the Company was dismissed by the judgment of the Arbitration Court of Appeal and the decision of the Arbitration Court of Moscow dated 17 October 2012 on granting the claims of OJSC Novolipetsk Steel was upheld. The Company plans to appeal against these judicial acts and expects to win them in connection with the decision by the Supreme Arbitration Court on 12 March 2013 in favour of OJSC IDGC of the Urals in a similar case. Consequently, the Group did not recognise any provision for those claims as it believes that it is not probable that related outflow of resources will take place.

(f) Guarantees

The Group issued financial guarantees for loans received by a lessor of the Group.

	Amount on contract 31 December 2012	**Amount on contract 31 December 2011**
OJSC "Rosbank"	-	681,901
Belgorodskoe OSB №8582	8,234	73,433
	8,234	**755,334**

Thousands of Russian Roubles, unless otherwise stated

32 RELATED PARTY TRANSACTIONS

(a) Control relationships

The Company's parent as at 31 December 2012 and 2011 was JSC IDGC Holding. The party with the ultimate control over the Company is the Government of the Russian Federation, which held the majority of the voting rights of JSC IDGC Holding.

(b) Transactions with parent

Management fee accounted for RUB 374,774 thousand (2011: RUB 374,774 thousand).

(c) Management compensation

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

Total remuneration paid to key management, Board of Directors and Management Board members for the year ended 31 December 2012 and included into personnel costs was:

	Year ended 31 December 2012	Year ended 31 December 2011
Salary and bonuses	**297,984**	**235,881**

(d) Transactions with government-related entities

The Group applies the exemption in IAS 24 Related party disclosures that allows to present reduced related party disclosures regarding transactions with government-related entities.

In the course of business, the Group makes a significant number of transactions with companies that are government-related. These operations are carried out under the regulated tariffs, or in accordance with market prices.

Revenues from government-related entities accounts for 3% of total revenue for the year ended 31 December 2012, (for the year ended 31 December 2011: 3%) including 3% of the proceeds from the transfer of electricity (for the year ended 31 December 2011: 3%).

Costs of electricity transmission for government-related entities account for 58% of the total cost of the electricity transmission for the year ended 31 December 2012 (for the year ended 31 December 2011: 58%).

(e) Loans and borrowings received from government-related entities

	Addition of loans and borrowings 2012	The balance of transactions 31 December 2012	Addition of loans and borrowings 2011	The balance of transactions 31 December 2011
Loans and borrowings received from:				
Government-related entities	2,166,100	16,523,705	7,420,000	14,962,532
	2,166,100	**16,523,705**	**7,420,000**	**14,962,532**

Loans and borrowings are drawn at the market interest rate (Note 28).

(f) Pricing policy

Transactions with related parties for the transmission of electricity are carried out at the tariffs set by the state.

33 EVENTS SUBSEQUENT TO THE REPORTING DATE

From 1 February 2013, pursuant to Orders № 25, 26, 28 of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier", of 24 January 2013, the Company began performing the functions of electricity supplier in Bryansk, Oryol and Kursk regions. Hence, in addition to performing power transmission services, the Company also performs a whole range of power distribution services: purchasing electricity on the wholesale market and selling it on the retail market, and entering into power purchase agreements with all customers, including householders in Bryansk, Oryol and Kursk regions. The period within which the functions of electricity supplier are to be performed is established prior to the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but not more than 12 months.

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding changes and additions were made to the Charter of JSC "IDGC Holding", under which the Parent Company was renamed JSC "Russian Grids".