Group of companies “Russian Grids”
(Russian Grids)
(formerly Interregional Distribution Grid Companies Holding (MRSK Holding) Group)

Consolidated Financial Statements
for the year ended 31 December 2012

Contents

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Auditors' Report

To the Shareholders and Board of Directors

JSC "Russian Grids" (formerly JSC IDGC Holding)

We have audited the accompanying consolidated financial statements of Joint Stock Company "Russian Grids" (formerly JSC IDGC Holding) (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.

Audited entity: Joint Stock Company "Russian Grids" (formerly JSC IDGC Holding)

Registered in the Unified State Register of Legal Entities on 4 April 2013 by Inter-Regional inspectorate of Federal Tax Service No.46 of Moscow, Registration No. 1087760000019, Certificate series 77 No. 015768874.

26 Ulanskiy pereulok, Moscow, Russia, 107996

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

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.

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Г.Р. №011585
КПМГ
KPMG
МОСКВА

Sloutsky E.A.,

Director, power of attorney No. 49/10 dated October 1, 2010

ZAO KPMG

22 April 2013

Moscow, Russian Federation

(in millions of Russian roubles, unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue and government subsidies	7	621,633	634,608
Operating expenses	8	(574,197)	(577,214)
Other income, net		2,252	1,860
Results from operating activities		**49,688**	**59,254**
Finance income	10	6,128	3,226
Finance costs	10	(11,769)	(9,069)
Net finance costs		**(5,641)**	**(5,843)**
Share of profit of equity accounted investees (net of income tax)	13	70	244
Profit before income tax		**44,117**	**53,655**
Income tax expense	11	(12,463)	(14,689)
Profit for the year		**31,654**	**38,966**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	10	(73)	(264)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	10	(44)	(232)
Income tax on other comprehensive income	11	27	105
Other comprehensive income for the year, net of income tax		**(90)**	**(391)**
Total comprehensive income for the year		**31,564**	**38,575**
Profit attributable to:			
Owners of the Company		17,355	23,438
Non-controlling interest		14,299	15,528
Total comprehensive income attributable to:			
Owners of the Company		17,265	23,047
Non-controlling interest		14,299	15,528
Earnings per share			
Basic and diluted earnings per ordinary share	20	RUB 0.35	RUB 0.53

These consolidated financial statements were approved by management on 22 April 2013 and were signed on its behalf by:

Chairman of the Management Board
O. M. Budargin

Chief Accountant
G.I. Zhabbarova

ОАО «Россети»
ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "РОССИЙСКИЕ СЕТИ" * ОГРН 1087760000019 * МОСКВА *

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 71.

(in millions of Russian roubles, unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	12	760,857	687,489
Intangible assets		4,609	4,368
Investments in equity accounted investees	13	104	1,280
Non-current accounts receivable	17	12,424	16,818
Other investments and financial assets	14	10,144	9,837
Deferred tax assets	15	3,711	2,599
Total non-current assets		**791,849**	**722,391**
Current assets			
Inventories	16	13,742	12,907
Other investments and financial assets	14	35,105	8,728
Current tax assets		3,156	4,516
Trade and other receivables	17	93,193	81,682
Cash and cash equivalents	18	35,691	48,853
Total current assets		**180,887**	**156,686**
Total assets		**972,736**	**879,077**

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 12 to 71.

(in millions of Russian roubles, unless otherwise stated)

	Notes	31 December 2012	31 December 2011
EQUITY AND LIABILITIES			
Equity	19		
Share capital		49,947	45,039
Share premium		16,244	6,036
Treasury shares		(1,786)	(1,786)
Reserve for issue of shares		19,751	9,382
Other reserves		190	280
Retained earnings		225,583	207,790
Total equity attributable to equity holders of the Company		**309,929**	**266,741**
Non-controlling interest		184,757	177,136
Total equity		**494,686**	**443,877**
Non-current liabilities			
Loans and borrowings	21	188,763	168,831
Trade and other payables	23	18,868	30,081
Employee benefits	22	9,930	9,660
Deferred tax liabilities	15	36,653	32,478
Total non-current liabilities		**254,214**	**241,050**
Current liabilities			
Loans and borrowings	21	40,098	28,965
Trade and other payables	23	168,263	158,689
Provisions	24	14,106	5,977
Current tax liabilities		1,369	519
Total current liabilities		**223,836**	**194,150**
Total liabilities		**478,050**	**435,200**
Total equity and liabilities		**972,736**	**879,077**

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 12 to 71.

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2012	**Year ended 31 December 2011**
OPERATING ACTIVITIES		
Profit for the year	**31,654**	**38,966**
Adjustments for:		
Depreciation and amortization	61,499	54,075
Impairment of property, plant and equipment	4,626	-
Finance costs	11,769	9,069
Finance income	(6,128)	(3,226)
Loss on disposal of property, plant and equipment	253	106
Share of profit of equity accounted investees (net of income tax)	(70)	(244)
Gain from disposal of subsidiaries	(56)	-
Other non-cash transactions	274	545
Income tax expense	12,463	14,689
Operating profit before working capital changes and reserves	**116,284**	**113,980**
Change in trade and other receivables	(10,607)	(6,970)
Change in financial assets related to employee benefit fund	(60)	(11)
Change in inventories	(847)	(1,565)
Change in trade and other payables	1,723	6,285
Change in employee benefit liabilities	270	621
Change in provisions	8,129	2,780
Cash flows from operations before income taxes and interest paid	**114,892**	**115,120**
Income taxes paid	(7,972)	(12,186)
Interest paid	(18,097)	(13,596)
Net cash flows from operating activities	**88,823**	**89,338**

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 12 to 71.

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2012	**Year ended 31 December 2011**
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(131,029)	(124,836)
Proceeds from sale of property, plant and equipment	806	1,087
Acquisition of investments and placement of bank deposits	(35,741)	(9,367)
Proceeds from disposal of investments and withdrawal of bank deposits	8,990	10,076
Disposal of subsidiaries, net of cash disposed of	144	-
Disposal of investment in equity accounted investee	800	-
Dividends received	13	20
Interest received	3,065	1,202
Net cash flows used in investing activities	**(152,952)**	**(121,818)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	90,296	139,724
Repayment of loans and borrowings	(54,255)	(87,002)
Proceeds from shares issued	25,485	10,687
Purchase of non-controlling interest in subsidiaries	(5,898)	-
Dividends paid	(1,476)	(1,670)
Repayment of finance lease liabilities	(3,185)	(5,296)
Net cash flows from financing activities	**50,967**	**56,443**
Net (decrease)/increase in cash and cash equivalents	**(13,162)**	**23,963**
Cash and cash equivalents at beginning of year	**48,853**	**24,890**
Cash and cash equivalents at end of year (Note 18)	**35,691**	**48,853**

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 12 to 71.

(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Available-for- sale investments revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011	**45,039**	**6,036**	**(1,786)**	**-**	**671**	**184,635**	**234,595**	**161,246**	**395,841**
Profit for the year	-	-	-	-	-	23,438	23,438	15,528	38,966
Net change in fair value of available-for-sale financial assets	-	-	-	-	(264)	-	(264)	-	(264)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	-	(232)	-	(232)	-	(232)
Income tax on other comprehensive income	-	-	-	-	105	-	105	-	105
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(391)**	**23,438**	**23,047**	**15,528**	**38,575**
Transactions with owners, recorded directly in equity									
Issue of shares (see Note 19)	-	-	-	9,382	-	-	9,382	-	9,382
Dividends	-	-	-	-	-	(104)	(104)	(1,517)	(1,621)
Purchase of shares issued by subsidiaries (see Note 19)	-	-	-	-	-	(574)	(574)	1,879	1,305
Effect of employee share options (see Note 19)	-	-	-	-	-	395	395	-	395
Total transactions with owners, recorded directly in equity	**-**	**-**	**-**	**9,382**	**-**	**(283)**	**9,099**	**362**	**9,461**
Balance at 31 December 2011	**45,039**	**6,036**	**(1,786)**	**9,382**	**280**	**207,790**	**266,741**	**177,136**	**443,877**

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 12 to 71.

(in millions of Russian roubles, unless otherwise stated)

	Attributable to equity holders of the Company								
	Share capital	**Share premium**	**Treasury shares**	**Reserve for issue of shares**	**Available-for-sale investments revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2012	**45,039**	**6,036**	**(1,786)**	**9,382**	**280**	**207,790**	**266,741**	**177,136**	**443,877**
Profit for the year	-	-	-	-	-	17,355	17,355	14,299	31,654
Net change in fair value of available-for-sale financial assets	-	-	-	-	(73)	-	(73)	-	(73)
Net change in fair value of available-for-sale financial assets transferred to profit or loss					(44)		(44)	-	(44)
Income tax on other comprehensive income	-	-	-	-	27	-	27	-	27
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(90)**	**17,355**	**17,265**	**14,299**	**31,564**
Transactions with owners, recorded directly in equity									
Issue of shares (Note 19)	4,908	10,208	-	10,369	-	-	25,485	-	25,485
Dividends	-	-	-	-	-	(145)	(145)	(1,342)	(1,487)
Purchase of shares issued by subsidiaries (see Note 19)	-	-	-	-	-	1,237	1,237	(314)	923
Purchase of non-controlling interest in subsidiaries (see Note 19)	-	-	-	-	-	(876)	(876)	(5,022)	(5,898)
Effect of employee share options (see Note 19)	-	-	-	-	-	222	222	-	222
Total transactions with owners, recorded directly in equity	**4,908**	**10,208**	**-**	**10,369**	**-**	**438**	**25,923**	**(6,678)**	**19,245**
Balance at 31 December 2012	**49,947**	**16,244**	**(1,786)**	**19,751**	**190**	**225,583**	**309,929**	**184,757**	**494,686**

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 12 to 71.

1 Background

(a) The Group and its operations

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

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding the decision was made to amend the Charter of JSC "IDGC Holding", under which it was renamed JSC "Russian Grids" (hereinafter referred to as "JSC Russian Grids" or "the Company"). On 4 April 2013 the respective changes to the Charter of JSC "IDGC Holding" were registered by the Inter-Regional inspectorate of Federal Tax Service №46 of Moscow.

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

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

The group of companies «Russian Grids» (Russian Grids) (hereinafter referred to as "the Group") comprises JSC Russian Grids and its subsidiaries presented in Note 5.

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

(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.

(c) Relations with state and current regulations

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

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

As at 31 December 2012 the Russian Government owned 56.58% of the voting ordinary shares and 7.01 % of the preference shares of the Company (31 December 2011: 55.95% of the voting ordinary shares and 7.01 % of the preference shares). In April 2012 the interest of the Russian Government in the share capital of the Company increased to 56.58% of the voting ordinary shares as a result of registration of the increase in share capital (see Note 19). The Russian Government, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Company. The Russian Government supports the Group due to its strategic position for economy of the Russian Federation. The Group's customer base includes a number of state-controlled entities.

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

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

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

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

- Note 15 – deferred tax assets
- Note 25 – allowances for trade and other receivables
- Note 21 – lease classification

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

- Note 12 – impairment of property, plant and equipment
- Note 22 – employee benefit liabilities
- Note 28 – contingencies.

3 Significant accounting policies

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

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

(a) Basis of consolidation

(i) Subsidiaries

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

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses attributable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(iii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iv) Acquisitions from entities under common control

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

(v) Investments in associates (equity accounted investees)

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

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

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

(ii) Non-derivative financial assets

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

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

Available-for-sale financial assets

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

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

(iii) Non-derivative financial liabilities

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

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

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

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

(iv) Derivative financial instruments

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

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

(d) Share capital

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(f) Intangible assets

(i) Goodwill

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

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

Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

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

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

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

(g) Leased assets

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

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

(h) Inventories

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

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

(i) Impairment

(i) Financial assets

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

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

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

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

(ii) Non-financial assets

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

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

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

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the CGU (group of CGU) on a pro rata basis.

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

(j) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit post-employment plans

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

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

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

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

(iii) Other non-current employee benefits

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

(iv) Short-term benefits

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

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

(k) Provisions

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

(l) Revenue

(i) Electricity distribution and sales of electricity

Revenue from 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 distribution and sales of electricity on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

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

Revenue for connection to the power network is recognised when an act of acceptance is signed by the customer and the customer is connected to the grid network or, for the contract where connection services are performed in stages, revenue is recognised in proportion to the stage of completion.

(iii) Other services

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

(m) Government subsidies

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

(n) Other expenses

(i) Lease payments

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

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

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

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

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

(o) Finance income and costs

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

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

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

(p) Income tax expense

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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

(q) Earnings per share

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

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

(r) Guarantees

The Group’s policy is to provide financial guarantees only in respect of loans issued to the Group’s lessors.

(s) Segment reporting

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

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

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

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

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

(t) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective.

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

- IAS 28 (2011*) Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The Group has not yet analysed the likely impact of the amended standard on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 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.

- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31s, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new standard on its financial position or performance.

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

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

(c) Inventories

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

(d) Trade and other receivables

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

(e) Derivatives

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

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

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

(f) Non-derivative financial liabilities

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

(in millions of Russian roubles, unless otherwise stated)

5 Significant subsidiaries

	Country of incorporation	31 December 2012 Ownership/voting, %	31 December 2011 Ownership/voting, %
JSC “Tyumenenergo”	Russian Federation	100	100
JSC “IDGC of Volga”	Russian Federation	67.63	67.63
JSC “IDGC of North Caucasus”	Russian Federation	81.33	63.93
JSC “IDGC of North-West”	Russian Federation	55.38	55.38
JSC “IDGC of Siberia”	Russian Federation	55.59	55.59
JSC “IDGC of South”	Russian Federation	51.66	51.66
JSC “IDGC of Urals”	Russian Federation	51.52	51.52
JSC “MOESK”	Russian Federation	50.9	50.9
JSC “Lenenergo”	Russian Federation	53.71 / 53.41	45.71 / 50.31
JSC “IDGC of Centre and Volga region”	Russian Federation	50.4	50.4
JSC “IDGC of Centre”	Russian Federation	50.23	50.23
JSC “Yantarenergo”	Russian Federation	100	100
JSC “TDC”	Russian Federation	77.90 / 59.88	52.03 / 59.88
JSC “Kubanenergo”	Russian Federation	82.08	45.77*
JSC “Karachaevo-Cherkesskenergo”	Russian Federation	100	100
JSC “Kalmenergosbyt”	Russian Federation	100	100
JSC “Tyvaenergosbyt”	Russian Federation	100	100
JSC “Kabbalkenergo”	Russian Federation	65.27	65.27
JSC “Dagestan Power Sales Company”	Russian Federation	51	51
JSC “Sevkavkazenergo”	Russian Federation	55.94	49*
JSC “Ingushenergo”	Russian Federation	49*	49*
JSC “Research Centre of IDGC”	Russian Federation	100	100
JSC “VNIPIenergoprom”	Russian Federation	100	100
JSC “Special design bureau for heat and power equipment VTI”	Russian Federation	100	100
JSC “Power Grid Optical Networks Engineering”	Russian Federation	100	100

(in millions of Russian roubles, unless otherwise stated)

		31 December 2012	31 December 2011
	Country of incorporation	**Ownership/voting, %**	**Ownership/voting, %**
JSC "NEMC"	Russian Federation	55.71	54.71
JSC "Nedvizhimost VNIPIenergoprom"	Russian Federation	100	100
JSC "NIC of UES"	Russian Federation	100	100
JSC "NIC North - West"	Russian Federation	100	100
JSC "NIC Volga"	Russian Federation	100	100
JSC "NIC of the South"	Russian Federation	100	100
JSC "NIC Urals"	Russian Federation	100	100
JSC "NIC Siberia"	Russian Federation	100	100

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

6 Operating segments

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

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

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

(in millions of Russian roubles, unless otherwise stated)

(i) Information about reportable segments

As at and for the year ended 31 December 2012

	IDGC Siberia and Tomskaya DC	Tyumen-energo	IDGC Urals	IDGC Volga	IDGC South	Kubanenergo	IDGC North Caucasus	IDGC Centre and Privolzhye	IDGC North-West	Lenenergo	Yantar-energo	IDGC Centre	MOESK	Other	Total
Revenue from external customers	56,076	47,068	46,820	45,763	23,096	28,118	7,854	59,879	28,416	36,211	256	69,374	117,990	46,343	613,264
Inter-segment revenue	8	1	4,515	-	368	-	3,398	10	2,753	62	3,171	23	18	18,563	32,890
Total segment revenue	56,084	47,069	51,335	45,763	23,464	28,118	11,252	59,889	31,169	36,273	3,427	69,397	118,008	64,906	646,154
Including															
Electricity transmission	54,631	45,260	49,692	45,124	21,362	27,194	9,983	58,376	29,278	28,816	3,207	67,487	100,281	7,894	548,585
Connection services	1,332	1,231	1,268	416	1,954	843	1,119	1,220	1,412	7,282	220	1,178	17,386	720	37,581
Other revenue	121	578	375	223	148	81	150	293	479	175	-	732	341	56,292	59,988
Finance income	135	204	50	44	18	447	21	69	24	296	-	157	320	131	1,916
Finance costs	(464)	(541)	(488)	(478)	(1,622)	(1,463)	(122)	(1,889)	(498)	(1,788)	(193)	(1,637)	(3,923)	(267)	(15,373)
Depreciation	3,912	6,549	3,207	4,448	2,422	1,431	1,781	4,874	3,005	6,364	327	6,304	16,687	1,630	62,941
EBITDA	**5,625**	**8,225**	**4,868**	**7,012**	**564**	**279**	**2,872**	**9,713**	**3,901**	**10,010**	**(338)**	**12,272**	**41,219**	**(644)**	**105,578**
Segment assets	**57,905**	**141,400**	**50,259**	**60,818**	**43,843**	**42,974**	**32,410**	**84,374**	**45,488**	**131,740**	**6,257**	**99,113**	**286,747**	**49,315**	**1,132,643**
Including property, plant and equipment and construction in progress	45,265	126,198	40,359	53,047	31,302	31,207	28,337	68,927	37,001	115,075	4,639	79,221	216,883	26,735	902,835
Capital expenditure	5,789	7,005	7,360	9,246	5,151	7,574	5,475	9,335	6,826	745	477	16,146	36,095	1,872	119,096
Segment liabilities	**24,050**	**27,644**	**18,662**	**17,923**	**31,847**	**26,393**	**12,086**	**37,477**	**18,324**	**55,323**	**4,174**	**45,567**	**115,603**	**43,957**	**479,030**

(in millions of Russian roubles, unless otherwise stated)

As at and for the year ended 31 December 2011:

	IDGC Siberia and Tomskaya DC	**Tyumen-energo**	**IDGC Urals**	**IDGC Volga**	**IDGC South**	**Kubanenergo**	**IDGC North Caucasus**	**IDGC Centre and Privolzhye**	**IDGC North-West**	**Lenenergo**	**Yantar-energo**	**IDGC Centre**	**MOESK**	**Other**	**Total**
Revenue from external customers	58,955	47,447	49,809	47,801	23,997	28,708	7,914	64,381	28,025	36,915	8,743	67,910	126,533	38,575	635,713
Inter-segment revenue	42	2	4,763	26	359	-	2,628	23	2,823	94	70	218	13	17,684	28,745
Total segment revenue	58,997	47,449	54,572	47,827	24,356	28,708	10,542	64,404	30,848	37,009	8,813	68,128	126,546	56,259	664,458
Including															
Electricity transmission	56,861	45,764	52,866	47,222	22,688	27,535	10,235	63,249	29,489	28,526	7,569	65,671	106,993	8,453	573,121
Connection services	1,526	1,295	1,328	266	1,464	1,086	115	816	884	8,311	1,082	1,677	18,860	1,043	39,753
Other revenue	610	390	378	339	204	87	192	339	475	172	162	780	693	46,763	51,584
Finance income	53	80	24	13	14	339	-	77	20	57	1	118	106	125	1,027
Finance costs	(383)	(372)	(241)	(266)	(1,493)	(1,040)	(39)	(1,139)	(324)	(1,167)	(153)	(1,133)	(2,581)	(134)	(10,465)
Depreciation	3,430	5,399	2,640	3,877	2,237	1,299	1,430	4,064	2,692	5,106	269	5,257	15,200	1,463	54,363
EBITDA	**4,739**	**11,737**	**5,897**	**5,601**	**4,183**	**(221)**	**1,981**	**10,890**	**3,956**	**8,577**	**1,120**	**13,710**	**39,582**	**(4,844)**	**106,908**
Segment assets	**54,866**	**127,402**	**47,158**	**57,368**	**41,848**	**36,547**	**27,356**	**79,294**	**41,058**	**107,778**	**7,074**	**85,108**	**265,575**	**49,683**	**1,028,115**
Including property, plant and equipment and construction in progress	43,532	113,315	36,694	48,466	28,928	24,967	23,394	64,298	33,354	90,196	4,494	69,677	197,449	26,193	804,957
Capital expenditure	7,766	11,974	6,412	7,584	4,107	4,389	5,603	13,552	5,151	15,327	709	15,045	29,527	4,340	131,486
Segment liabilities	**22,055**	**23,105**	**15,941**	**15,434**	**25,285**	**22,769**	**10,841**	**33,997**	**13,762**	**51,583**	**3,897**	**34,591**	**110,397**	**38,665**	**422,322**

(in millions of Russian roubles, unless otherwise stated)

(ii) Major customer

In 2012 INTER RAO UES Group (consisting of primarily electricity sales companies within the INTER RAO UES Group) was a major customer of the Group. Total revenues from companies of INTER RAO UES Group amounted to RUB 126,046 million for the year ended 31 December 2012 (RUB 130,393 million for the year ended 31 December 2011).

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

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

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2012	**Year ended 31 December 2011**
Total segment revenues	**646,154**	**664,458**
Intersegment revenue elimination	(32,890)	(28,745)
Reclassification from other income	7,508	2,645
Other adjustments	650	(3,795)
Unallocated revenues	211	45
Revenues per Consolidated Statement of Comprehensive Income	**621,633**	**634,608**

Reconciliation of reportable segment EBITDA is presented below:

	Year ended 31 December 2012	**Year ended 31 December 2011**
EBITDA of reportable segments	**105,578**	**106,908**
Adjustment for disposal of property, plant and equipment	(439)	(76)
Adjustment for inventories valuation	(98)	6
Discounting of financial instruments	1,166	(3)
Trade and other receivables' allowance adjustment	5,777	6,061
Adjustments for financial lease	4,621	6,021
Impairment of property, plant and equipment	(4,626)	-
Accrued salaries and wages	(525)	(663)
Retirement benefit obligations recognition	(271)	(621)
Assets related to employee benefit fund	87	244
Provisions	2,729	491
Adjustments for deferred expenses	811	831
Other adjustments	462	(4,103)
Unallocated	1,966	1,411
	117,238	**116,507**
Depreciation and amortization	(61,499)	(54,075)
Interest expenses on financial liabilities	(10,705)	(6,816)
Financial leasing	(917)	(1,961)
Income tax expense	(12,463)	(14,689)
Profit for the year per Consolidated Statement of Comprehensive Income	**31,654**	**38,966**

(in millions of Russian roubles, unless otherwise stated)

Reconciliation of reportable segment total assets is presented below:

	31 December 2012	31 December 2011
Total segment assets	**1,132,643**	**1,028,115**
Intersegment balances	(17,818)	(12,164)
Intersegment investments	(16,058)	(9,634)
Net-off trade and other receivables and payables	(167)	(688)
Adjustment for net book value of property, plant and equipment	(145,216)	(124,191)
Impairment of property, plant and equipment	(4,626)	-
Recognition of assets related to employee benefits	5,563	5,476
Investments in equity accounted investees	65	(56)
Adjustments for impairment of account receivables	506	(8,774)
Inventories written-off	1,785	(591)
Adjustment for deferred tax calculation	(6,797)	(5,034)
Advances given	(17,310)	(18,935)
Other adjustments	(6,868)	(2,660)
Unallocated assets	47,034	28,213
Total assets per Consolidated Statement of Financial Position	**972,736**	**879,077**

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2012	31 December 2011
Total segment liabilities	**479,030**	**422,322**
Intersegment balances	(18,672)	(12,009)
Net-off trade and other receivables and payables	(167)	(688)
Adjustment for deferred tax calculation	9,557	11,359
Retirement benefit obligations	9,930	9,660
Finance lease liabilities	1,844	4,663
Accrued salaries and wages	718	590
Other provisions and accruals	(3,177)	(872)
Other adjustments	(1,644)	(635)
Unallocated liabilities	631	810
Total liabilities per Consolidated Statement of Financial Position	**478, 050**	**435,200**

(in millions of Russian roubles, unless otherwise stated)

7 Revenue and government subsidies

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	526,656	552,634
Technological connection services	44,592	40,099
Electricity sales	39,690	31,794
Other revenues	10,535	9,838
	621,473	**634,365**
Government subsidies	160	243
	621,633	**634,608**

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

Government subsidies

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

(in millions of Russian roubles, unless otherwise stated)

8 Operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	214,475	220,969
Personnel costs (see Note 9)	108,496	104,615
Purchased electricity for compensation of technological losses	74,300	94,663
Depreciation and amortization	61,499	54,075
Purchased electricity for resale	22,797	17,525
Raw materials and supplies	17,393	15,905
Repairs, maintenance and installation services	13,251	14,902
Provisions	9,194	4,750
Impairment of trade and other receivables	6,913	7,668
Rent	5,256	6,087
Consulting, legal and audit services	5,243	4,712
Impairment of property, plant and equipment	4,626	-
Taxes other than income tax	3,130	2,683
Utilities	2,875	3,098
Other expenses	24,749	25,562
	574,197	**577,214**

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

9 Personnel costs

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	80,282	76,793
Social security contributions	21,813	21,228
Expense in respect of post-employment defined benefit plan	2,120	2,821
Income in respect of long-term service benefits provided	(14)	(316)
Other	4,295	4,089
	108,496	**104,615**

The amount of contributions to defined contribution plan was RUB 14,923 million for the year ended 31 December 2012 (2011: RUB 13,466 million).

(in millions of Russian roubles, unless otherwise stated)

10 Finance income and costs

	Year ended 31 December 2012	Year ended 31 December 2011
Recognised in profit or loss		
Finance income		
Interest income on loans, bank deposits and promissory notes	4,466	2,084
Gain on disposal of financial assets	340	645
Gain on disposal of available-for-sale financial assets reclassified from other comprehensive income	44	232
Other finance income	1,278	265
	6,128	**3,226**
Finance costs		
Interest expenses on financial liabilities measured at amortised cost	(10,705)	(6,816)
Financial leasing	(917)	(1,961)
Other finance costs	(147)	(292)
	(11,769)	**(9,069)**
Recognised in other comprehensive income		
Net change in fair value of available-for-sale financial assets	(73)	(264)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(44)	(232)
Income tax on income and expense recognised in other comprehensive income	27	105
	(90)	**(391)**

(in millions of Russian roubles, unless otherwise stated)

11 Income tax expense

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax expense		
Current year	(13,860)	(13,979)
Over provided in prior years	4,483	3,670
	(9,377)	**(10,309)**
Deferred tax expense		
Origination and reversal of temporary differences	1,803	545
Derecognition of deferred tax assets	(800)	(1,321)
Change in tax base of property, plant and equipment	(4,089)	(3,604)
	(3,086)	(4,380)
	(12,463)	**(14,689)**

The Group’s applicable tax rate in 2012 and 2011 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

In 2012 and 2011 the Group recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated tax depreciation of property, plant and equipment operated in an aggressive environment. As a result adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognised. Accordingly the tax value of property, plant and equipment was decreased, which resulted in an increase of deferred tax liabilities.

Income tax recognised in other comprehensive income

	2012			2011		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	(117)	27	(90)	(496)	105	(391)
	(117)	**27**	**(90)**	**(496)**	**105**	**(391)**

Reconciliation of effective tax rate:

	Year ended 31 December 2012	%	Year ended 31 December 2011	%
Profit before income tax	44,117	100%	53,655	100%
Income tax at applicable tax rate	(8,823)	(20)	(10,731)	(20)
Effect of income taxed at lower rates	24	-	38	-
Non-deductible expenses	(3,258)	(7)	(2,741)	(5)
Change in tax base of property, plant and equipment	(4,089)	(9)	(3,604)	(7)
Over provided in prior years	4,483	10	3,670	7
Derecognition of deferred tax assets	(800)	(2)	(1,321)	(2)
	(12,463)	**(28)**	**(14,689)**	**(27)**

(in millions of Russian roubles, unless otherwise stated)

12 Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost / Deemed cost						
Balance at 1 January 2011	107,441	304,134	154,144	83,395	94,698	743,812
Additions	2,022	3,244	4,499	6,599	123,071	139,435
Transfer	19,309	35,058	31,896	15,048	(101,311)	-
Disposals	(303)	(445)	(260)	(787)	(1,238)	(3,033)
Balance at 31 December 2011	**128,469**	**341,991**	**190,279**	**104,255**	**115,220**	**880,214**
Balance at 1 January 2012	128,469	341,991	190,279	104,255	115,220	880,214
Reclassification between PPE groups	(912)	355	875	(318)	-	-
Additions	3,678	7,596	4,023	6,114	120,201	141,612
Transfer	18,869	48,716	34,808	21,163	(123,556)	-
Disposals	(1,038)	(714)	(596)	(983)	(1,155)	(4,486)
Balance at 31 December 2012	**149, 066**	**397,944**	**229,389**	**130,231**	**110,710**	**1,017,340**
Depreciation						
Balance at 1 January 2011	**(14,402)**	**(68,270)**	**(30,518)**	**(27,381)**	**-**	**(140,571)**
Depreciation charge	(5,777)	(22,325)	(11,233)	(13,712)	-	(53,047)
Disposals	60	167	126	540	-	893
Balance at 31 December 2011	**(20,119)**	**(90,428)**	**(41,625)**	**(40,553)**	**-**	**(192,725)**
Balance at 1 January 2012	(20,119)	(90,428)	(41,625)	(40,553)	-	(192,725)
Reclassification between PPE groups	332	(95)	(285)	48	-	-
Depreciation charge	(6,521)	(25,049)	(12,812)	(16,032)	-	(60,414)
Impairment	(640)	(1,185)	(834)	(180)	(1,787)	(4,626)
Disposals	189	288	143	662	-	1,282
Balance at 31 December 2012	**(26,759)**	**(116,469)**	**(55,413)**	**(56,055)**	**(1,787)**	**(256,483)**
Net book value						
At 1 January 2011	**93,039**	**235,864**	**123,626**	**56,014**	**94,698**	**603,241**
At 31 December 2011	**108,350**	**251,563**	**148,654**	**63,702**	**115,220**	**687,489**
At 31 December 2012	**122,307**	**281,475**	**173,976**	**74,176**	**108,923**	**760,857**

As at 31 December 2012 construction in progress includes advance payments for property, plant and equipment of RUB 8,776 million (31 December 2011: RUB 12,023 million) which are stated net of impairment provision of RUB 776 million (31 December 2011: RUB 723 million).

Capitalised borrowing cost for the year ended 31 December 2012 amounted to RUB 5,888 million (2011: RUB 4,575 million) with capitalisation rates of 6.8-10.4% (2011: 7-11%).

As at 31 December 2012 property, plant and equipment with a carrying amount of RUB 42 million are pledged as collateral for loans (31 December 2011: RUB 67 million) (see Note 21).

Impairment testing

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2012. As a result of the impairment testing, an impairment loss of RUB 4,626 million has been recognised for the year ended 31 December 2012 (year ended 31 December 2011: nil).

Determination of recoverable amount of property plant and equipment

The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market other than as part of a continuing business. The market for similar property, plant and equipment is not active in the Russian Federation and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value.

Therefore the value in use for property, plant and equipment as at 31 December 2012 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

Each cash-generating unit (CGU) is determined by the Group based on the geographical location of the Company's subsidiaries which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets.

As at 31 December 2012 as a result of impairment testing the Group recognised impairment losses of RUB 4,377 million on property, plant and equipment of Kubanenergo, IDGC Urals, IDGC North Caucasus and IDGC South operating segments in the amount of RUB 2,957 million, RUB 987 million, RUB 343 million and RUB 90 million, respectively.

In 2012 the Group also recognised an impairment of certain assets under construction of the MOESK operating segment of RUB 249 million.

The following key assumptions were used in determining the recoverable amounts of the Kubanenergo cash-generating unit:

- cash flows were projected based on actual operating results for 2012 and the business plan of Kubanenergo for 2013. Cash flows for the period 2014-2022 were forecasted as follows:
  - distribution tariffs for the period from 2014 to 2017 were estimated using tariff growth rate of 10% in accordance with the limitation of tariff growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation #1178 as of 29 December 2011.
  - post 2017 distribution tariffs were estimated based on the Regulatory Asset Base (RAB) methodology in accordance with Executive order by FST No. 228-e dated 30 March 2012. As per RAB regulated gross revenue should cover all operating expenses (excluding depreciation), tax payments, payback of invested capital and regulatory return on the invested capital (up to 11%).

  - forecasted transmission volumes were determined based on the annual business plan of Kubanenergo for 2013 and management's expectations for the useful supply volume in 2013 (which implies an increase by 2.7% as compared to 2012) taking into consideration that the level of production in the forecast period was fixed at 2013 year level;
  - operating costs were assumed to increase in line with the consumer price index. For tariff setting purposes under RAB regulation optimisation (i.e. decrease) of operating costs by 1% was assumed
- the cash flow forecasts were discounted to their present value at a nominal pre-tax weighted average cost of capital of 14.77%;
- the terminal growth rate of the net cash flows was expected at the level of 3.2% in the post-forecasted period.

An increase of 1% in the post-tax discount rate used would have caused the recognition of impairment losses of RUB 6,392 million. A decrease of 1% in the post-tax discount rate used would have not caused any impairment losses in this CGU.

An increase of 1% in revenue annually would have caused the recognition of impairment losses of RUB 326 million. A decrease of 1% in revenue annually would have caused the recognition of impairment losses of RUB 5,588 million.

An increase of 1% in operating expenses annually would have caused the recognition of impairment losses of RUB 5,223 million. A decrease of 1% in operating expenses annually would have caused the recognition of impairment losses of RUB 692 million.

If the useful supply of electricity would have been increased by 4.6% for the forecast period compared to the planned useful supply of electricity in the business plan for 2013 year the recoverable amount of the tested property, plant and equipment of this CGU would be equal to their book value.

If distribution tariffs would have been increased by 17.5% for the first forecast period compared to the planned distribution tariffs in the business plan for 2013 the recoverable amount of the tested property, plant and equipment for this CGU would be equal to its book value.

The following key assumptions were used in determining the recoverable amounts of IDGC Urals cash-generating unit:

- cash flows were projected based on actual operating results for 2012 and business plan of MRSK Urals for 2013. Cash flows for the period 2014-2024 were forecasted as follows:
  - distribution tariffs for the forecasted period were estimated using a tariff growth rate of 10% for the period from 2014 to 2017 in accordance with the limitation of tariff growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation #1178 as of 29 December 2011, for the period from 2018 to 2019 in accordance with forecast of The Ministry of Economic Development and Trade (limitation of tariffs growth rate of 6.4 and 7.2%, respectively).
  - forecasted transmission volumes were determined based on the one year business plan of MRSK Urals for 2013 (which implies an increase in volumes by 3.3% in 2013 as compared to 2012) and historical transmission volumes with the level of production fixed over the forecast period;
  - operating costs were assumed to increase in line with consumer price index. For tariff setting purposes under RAB regulation optimisation (i.e. decrease) of operating costs by 1% was assumed
- the cash flow forecasts were discounted to their present value at the nominal pre-tax cost of capital of 15,84%;

(in millions of Russian roubles, unless otherwise stated)

- terminal growth rate of the net cash flows was expected at the level of 3,1% in the post-forecasted period.

An increase of one percentage point in the discount rate used would have caused the recognition of an impairment loss of RUB 1,954 million. A decrease of 1,52% in the discount rate used would have resulted in no impairment for this CGU.

If the useful supply of electricity would have been increased by 5.645% for the forecast period compared to the planned useful supply of electricity in the business plan for 2013 year the recoverable amount of the tested property, plant and equipment of this CGU would be equal to their book value.

If distribution tariffs would have been increased by 36.578% compared to the planned distribution tariffs in the business plan for 2013 the recoverable amount of the tested property, plant and equipment for this CGU would be equal to its book value.

Leased equipment and transport

The Group leases production equipment and transport under a number of financial lease agreements. At the end of each of the leases the Group has the option to purchase the equipment. As at 31 December 2012 the net book value of leased property, plant and equipment was RUB 15,975 million (2011: RUB 23,237 million). The leased equipment secures lease obligations.

13 Equity accounted investees

The Group has the following investments in equity accounted investees:

	Country	**Ownership/Voting**
JSC “Nurenergo”	Russian Federation	23%
JSC “Kurganenergo”*	Russian Federation	49%
JSC “ENIN”	Russian Federation	31.34%
CJSC “LEIVO”	Russian Federation	50%

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

	31 December 2012	**31 December 2011**
Total assets	6,079	9,296
Total liabilities	(12,263)	(11,792)
Revenue	5,864	6,036
Loss for the year	**(952)**	**(1,132)**

* - Disposed in November 2012.

(in millions of Russian roubles, unless otherwise stated)

	As at 1 January 2012	Share of profit for the year	Dividends received	Disposal of investment	As at 31 December 2012
JSC “Kurganenergo“	1,177	68	-	(1,245)	-
JSC “ENIN”	31	2	(1)	-	32
CJSC “LEIVO”	72	-	-	-	72
	1,280	**70**	**(1)**	**(1,245)**	**104**

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

14 Other investments and financial assets

	31 December 2012	31 December 2011
Non-current		
Available-for-sale financial assets related to defined benefit plans	5,563	5,476
Promissory notes	3,966	3,551
Available-for-sale investments	573	747
Other non-current assets	42	63
	10,144	**9,837**
Current		
Bank deposits	34,099	5,867
Promissory notes	1,006	2,861
	35,105	**8,728**

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

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

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

(in millions of Russian roubles, unless otherwise stated)

Bank deposits with original maturity more than 3 months were placed with a number of banks bearing an interest of 7.35-11% per annum.

The Group's exposure to credit risk and impairment losses related to other investments and financial assets are disclosed in Note 25.

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
Property, plant and equipment	1,056	621	(46,913)	(41,399)	(45,857)	(40,778)
Intangible assets	41	73	(1)	(7)	40	66
Investments	19	113	(143)	(44)	(124)	69
Inventories	281	341	(15)	(7)	266	334
Trade and other receivables and prepayments	6,313	5,466	(503)	(335)	5,810	5,131
Financial lease liability	2,357	2,433	-	-	2,357	2,433
Loans and borrowings	-	-	(448)	(222)	(448)	(222)
Provisions	2,018	685	-	-	2,018	685
Employee benefits	1,256	1,361	(393)	(227)	863	1,134
Trade and other payables	2,255	1,678	(177)	(126)	2,078	1,552
Tax loss carry-forwards	2,816	1,882	-	-	2,816	1,882
Other	538	328	(227)	(221)	311	107
Tax assets/(liabilities)	18,950	14,981	(48,820)	(42,588)	(29,870)	(27,607)
Set off of tax	(12,167)	(10,110)	12,167	10,110	-	-
Derecognition of deferred tax assets	(3,072)	(2,272)	-	-	(3,072)	(2,272)
Net tax assets/(liabilities)	**3,711**	**2,599**	**(36,653)**	**(32,478)**	**(32,942)**	**(29,879)**

(b) Unrecognised deferred tax liabilities

At 31 December 2012 a deferred tax liability of RUB 17,305 million (31 December 2011: RUB 15,092 million) for temporary differences of RUB 86,526 million (31 December 2011: RUB 75,460 million) related to an investment in subsidiaries was not recognised because the Group controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

(in millions of Russian roubles, unless otherwise stated)

(c) Unrecognised deferred tax assets

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

	31 December 2012	31 December 2011
Deductible temporary differences	5,460	6,918
Tax losses	9,900	4,440
Total	**15,360**	**11,358**
Unrecognized deferred tax assets at applicable tax rate	**3,072**	**2,272**

The deductible temporary differences do not expire under current tax legislation. Tax losses expire in 2020-2022, which is 10 years after their origination. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which some group companies in North Caucasus can utilise the benefits there from.

(d) Movement in temporary differences during the year

	1 January 2012	Acquired in business combinations	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2012
Property, plant and equipment	(40,778)	16	(5,095)	-	(45,857)
Intangible assets	66	-	(26)	-	40
Investments	69	(14)	(191)	12	(124)
Inventories	334	-	(68)	-	266
Trade and other receivables and prepayments	5,131	-	679	-	5,810
Financial lease liability	2,433	-	(76)	-	2,357
Loans and borrowings	(222)	-	(226)	-	(448)
Provisions	685	-	1,333	-	2,018
Employee benefits	1,134	-	(271)	-	863
Trade and other payables	1,552	(1)	527	-	2,078
Other	107	-	189	15	311
Tax loss carry-forwards	1,882	(5)	939	-	2,816
Derecognition of deferred tax assets	(2,272)	-	(800)	-	(3,072)
	(29,879)	**(4)**	**(3,086)**	**27**	**(32,942)**

(in millions of Russian roubles, unless otherwise stated)

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

16 Inventories

	31 December 2012	31 December 2011
Raw materials and consumables	13,159	12,349
Other inventories	1,400	1,176
Allowance for obsolescence of inventories	(817)	(618)
Net book value	**13,742**	**12,907**

(in millions of Russian roubles, unless otherwise stated)

17 Trade and other receivables

	31 December 2012	31 December 2011
Non-current accounts receivable		
Trade receivables	358	1,312
Trade receivables impairment allowance	(5)	(1,182)
Other receivables	575	998
Other receivables impairment allowance	(1)	(2)
Loans	46	48
Total financial assets	**973**	**1,174**
Advances given	15,517	14,631
Advances given impairment allowance	(5,736)	(2,990)
VAT recoverable	50	43
VAT on advances from customers	1,620	3,960
	12,424	**16,818**
Current accounts receivable		
Trade receivables	87,701	67,580
Trade receivables impairment allowance	(25,606)	(19,941)
Other receivables	8,289	6,940
Other receivables impairment allowance	(2,584)	(2,529)
Receivables from equity accounted investees	238	97
Loans	34	195
Total financial assets	**68,072**	**52,342**
Advances given	6,253	10,947
Advances given impairment allowance	(588)	(500)
VAT recoverable	5,262	5,271
VAT on advances from customers	12,241	11,275
Prepaid taxes, other than income tax	1,953	2,347
	93,193	**81,682**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 25.

(in millions of Russian roubles, unless otherwise stated)

18 Cash and cash equivalents

	31 December 2012	31 December 2011
Cash at bank and in hand	32,267	26,804
Cash equivalents	3,424	22,049
Cash and cash equivalents in the consolidated statement of cash flows and consolidated statement of financial position	**35,691**	**48,853**

Cash equivalents represent primarily bank deposits with original maturity less than 3 months placed with a number of banks bearing an interest of 4.25-8.34% per annum.

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

19 Equity

(a) Share capital

Number of shares unless otherwise stated	Ordinary shares		Preference shares	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
Par value	RUB 1	RUB 1	RUB 1	RUB 1
On issue at 1 January	42,964,067,081	42,964,067,081	2,075,149,384	2,075,149,384
Issued for cash	4, 907,627,335	-	-	-
On issue at end of year, fully paid	47,871,694,416	42,964,067,081	2,075,149,384	2,075,149,384

(b) Ordinary and preference shares

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

Holders of preference shares are entitled to an annual dividend equal to 10% of net statutory profit divided by 25% of all shares. If the amount of dividends paid by the Company for each ordinary share in a given year exceeds the amount payable as a dividend on each preference share, the dividend rate payable on the latter must be increased to the amount of dividends on ordinary shares.

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

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

(c) Issue of shares

On 30 September 2011 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 5,444,391,292 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 3.08 roubles per share. This share issuance was registered by the Federal Service for Financial Markets on 10 November 2011. Advances received as prepayment for share issue as at 31 December 2011 in the amount of RUB 9,382 million were recognised as a reserve for issue of shares within equity.

On 16 April 2012 the share issue was completed and 4,907,627,335 shares were subscribed. The increase in share capital was registered on 28 June 2012. The amount of RUB 4,908 million and RUB 10,208 million was recognised as share capital and share premium within equity as at 31 December 2012.

On 20 November 2012 the Board of Directors of the Company approved an increase in the Company's charter capital through issuance of 16,885,114,442 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 2.16 roubles per share. This share issuance was registered by the Federal Service for Financial Markets on 3 December 2012. Advances received as prepayment for share issue as at 31 December 2012 in the amount of RUB 19,751 million were recognised as a reserve for issue of shares within equity.

(d) Non-controlling interest

Purchase of shares issued by subsidiaries

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

On 23 November 2011 an Extraordinary General Meeting of Shareholders of JSC "Kubanenergo", the Group's subsidiary, approved an increase in charter capital through issuance of an additional 97,478,760 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 103.44. This share issuance was registered by the Federal Service for Financial Markets on 21 February 2012. During 2012, 45,460,746 shares were subscribed by the Group and 21,151 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 4,705 million. Additional capital of RUB 2 million attributable to non-controlling shareholders was recognized as issue of shares of subsidiaries as at 31 December 2012. The Group recognized a decrease in retained earnings and an increase in non-controlling interest in the amount of RUB 12 million. As a result of the subscription of shares the Company's ownership interest in JSC "Kubanenergo" increased from 45.77% to 63.01%. The further increase of the Group's ownership interest is described in Note 19 (d) "Purchase of non-controlling interest".

On 18 March 2013 an Extraordinary General Meeting of Shareholders of JSC "Kubanenergo" approved an increase in charter capital through issuance of additional 214,877,270 ordinary shares with a par value of 100 roubles each under an open subscription. The approved offering price was RUB 121.82.

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

On 25 November 2011 an Extraordinary General Meeting of Shareholders of JSC "Lenenergo", the Group's subsidiary, approved an increase in charter capital through issuance of an additional 273,023,689 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 14.56. This share issuance was registered by the Federal Service for Financial Markets on 22 February 2012. In 2012, 140,345,713 shares were subscribed by the Company and 68,693,921 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 2,964 million. Additional capital of RUB 921 million attributable to non-controlling shareholders was recognized as issue of shares of subsidiaries as at 31 December 2012. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 754 million. As a result of the subscription of shares the Company's ownership interest in JSC "Lenenergo" increased from 45.71% to 50.64%. The further increase of the Group's ownership interest is described in Note 19 (d) "Purchase of non-controlling interest".

On 23 November 2011 an Extraordinary General Meeting of Shareholders of JSC "IDGC of North Caucasus", the Group's subsidiary, approved an increase in charter capital through issuance of an additional 44,632,214 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 92.54. This share issuance was registered by the Federal Service for Financial Markets on 28 February 2012. In 2012, 26,552,771 shares were subscribed by the Company and 7,665 shares by 3rd parties and existing non-controlling shareholders who jointly paid RUB 2,458 million. Additional capital of RUB 0.7 million attributable to non-controlling shareholders was recognized as issue of shares of subsidiaries as at 31 December 2012. The Group recognized an increase in retained earnings and a decrease in non-controlling interest in the amount of RUB 495 million. As a result of the subscription of shares the Company's ownership interest in JSC "IDGC of North Caucasus" increased from 63.93% to 81.33%.

On 15 March 2013 an Extraordinary General Meeting of Shareholders of JSC "IDGC of North Caucasus" approved an increase in charter capital through issuance of an additional 125,722,698 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 25.94.

Purchase of non-controlling interest in subsidiaries

In February 2012, JSC "MOESK", the Group's subsidiary, acquired an additional 9,999 shares of JSC "Energocentr" for a cash consideration of RUB 51 million. The excess of the value of non-controlling interest acquired of RUB 242 million over the consideration paid was recognized as an increase in retained earnings in the amount of RUB 191 million. As a result of the transaction the ownership interest of JSC "MOESK" in JSC "Energocentr" increased from 50.00% to 75.00% less one share.

In June 2012, the Group's ownership interest in JSC "Sevkavkazenergo", the Group's subsidiary, increased from 49.00% to 55.94% as a result of the acquisition of additional shares. The Group recognised a decrease in retained earnings in the amount of RUB 128 million and an increase in non-controlling interest in the amount of RUB 125 million.

In November 2012 the Group acquired additional 27,260,040 ordinary shares of its subsidiary JSC "Kubanenergo" for a cash consideration of RUB 4,302 million from non-controlling shareholder.

The excess of consideration transferred over the value of non-controlling interest acquired of RUB 2,411 million was recognized as a decrease in retained earnings in the amount of RUB 1,891 million. As a result of the transaction the ownership interest of the Group in JSC “Kubanenergo” increased to 82.08%.

In November 2012 the Group acquired an additional 979,267,684 ordinary and 158,213,911 preference shares of JSC “TDC” for a cash consideration of RUB 525 million and RUB 67 million respectively. The excess of the value of non-controlling interest acquired of RUB 653 million over the consideration paid was recognized as an increase in retained earnings in the amount of RUB 61 million. As a result of the transaction the ownership interest of the Group in JSC “TDC” increased to 77.90%.

In November 2012, JSC “IDGC of Urals”, the Group’s subsidiary, competed an exchange transaction of 78,887,994 ordinary shares of its associate JSC “Kurganenergo” for 81,119,240 ordinary and 22,750,128 preference shares of JSC “Lenenergo”, the Group’s subsidiary, together with cash consideration of RUB 800 million. The Group recognized an increase in retained earnings in the amount of RUB 891 million and a decrease in non-controlling interest in the amount of RUB 1,841 million as at 31 December 2012. As a result of the transaction the Company’s ownership interest in JSC “Lenenergo” increased to 53.71%.

(e) Dividends

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

At the annual shareholders meeting held on 30 June 2012 the decision was made not to declare dividends for ordinary and preference shares according to the results of 2011 and to declare dividends for preference shares in the amount of RUB 0.07 per share from the previous year’s retained earnings.

(f) Share options

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

During the year ended 31 December 2012 contracts were signed for the options with a weighted average exercise price of RUB 3.39 per share for 74,400,000 shares. As at 31 December 2012 contracts were signed for 383,500,000 options out of the 429,642,598 shares allocated for this purpose.

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

	31 December 2012		31 December 2011
Number of agreements signed	22,000,000	52,400,000	309,100,000
Share price (in Russian roubles)	3.27	1.76	4.47
Exercise price (in Russian roubles)	4.14	3.08	4.14
Expected volatility	49%	53%	42%
Expected average option life (years)	4	4	4
Risk-free interest rate	7%	8%	7%
Fair value per share at measurement date (in Russian roubles)	**1.29**	**0.59**	**2**

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

The expenses arising from share option program for the year ended 31 December 2012 in the amount of RUB 222 million (year ended 31 December 2011: RUB 395 million) were charged as personnel costs to profit and loss. The same amounts were recognised within the retained earnings as part of transactions with owners recorded directly in equity in the consolidated statement of changes in equity.

20 Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit attributable to ordinary shareholders of RUB 16,621 million (31 December 2011: RUB 22,348 million), and a weighted average number of ordinary shares outstanding of 47,015 million (31 December 2011: 42,528 million), calculated as shown below. The Company has no dilutive ordinary shares.

In millions of shares	2012	2011
Issued shares at 1 January	42,964	42,964
Effect of own shares held	(436)	(436)
Effect of shares issued	4,487	-
Weighted average number of shares for the year ended 31 December	47,015	42,528

(in millions of Russian roubles, unless otherwise stated)

	Year ended 31 December 2012	**Year ended 31 December 2011**
Weighted average number of ordinary shares for the year ended 31 December (million of shares)	47,015	42,528
Total profit attributable to holders of ordinary shares	16,621	22,348
Earnings per ordinary share (in RUB) – basic and diluted	**0.35**	**0.53**

21 Loans and borrowings

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

	31 December 2012	**31 December 2011**
Non-current liabilities		
Secured loans	-	37
Unsecured loans	162,148	159,630
Unsecured bonds issued	26,076	4,558
Promissory notes	102	2,811
Loans from other related parties	-	60
Financial lease liabilities	437	1,735
	188,763	**168,831**
Current liabilities		
Current portion of unsecured loans and bonds	32,627	13,235
Current portion of secured loans and bonds	20	6,167
Unsecured loans	2,289	3,841
Promissory notes	3,446	2,111
Loans from other related parties, including current portion of long-term loans	469	441
Current portion of financial lease liabilities	1,247	3,170
	40,098	**28,965**

(in millions of Russian roubles, unless otherwise stated)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			31 December 2012	**31 December 2011**	**31 December 2012**		**31 December 2011**	
	Currency	**Year of maturity**	**Effective interest rate**	**Effective interest rate**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans								
Unsecured bank loans	RUB	2013	9.75%	8.75%	100	100	60	60
Unsecured bank loans *	RUB	2013-2025	6.87-11%	5.3-12.0%	106,623	106,623	88,400	88,400
Unsecured bank loans	RUB	2013-2017	7.31-11.8%	7.80-9.75%	17,948	17,948	17,272	17,272
Unsecured bank loans*	RUB	2013-2018	7.64-11%	7.39-10.10%	22,692	22,692	27,797	27,797
Unsecured bank loans	RUB	2013	9.13%	7.98-9.46%	1,900	1,900	3,400	3,400
Unsecured bank loans	RUB	2013-2015	7.2-8%	5.97-8.00%	6,079	6,079	6,143	6,143
Unsecured bank loans *	RUB	2013-2018	7.11-10.17%	7.11-9.96%	15,529	15,529	9,711	9,711
Unsecured bank loans	RUB	2012	-	7.57%	-	-	200	200
Unsecured bank loans *	RUB	2012	-	9.9%	-	-	1,500	1,500
Unsecured bank loans	RUB	2013-2014	7.65%	7.65-7.92%	2,000	2,000	2,000	2,000
Unsecured bank loans*	RUB	2013-2015	8-10.1%	7.92-8.5%	7,632	7,632	6,576	6,576
Unsecured bank loans	RUB	2016	7.5-9.5%	7.26-7.5%	6,061	6,061	5,394	5,394
Unsecured bank loans	RUB	2013-2016	7.65-10.5%	7.65-8.28%	1,337	1,337	1,583	1,583
Unsecured bank loans	RUB	2013	9.5-11%	9.5%	800	800	400	400
Unsecured bank loans	RUB	2013-2020	10.08%	10.05%	6,164	6,164	113	113
Unsecured bank loans	RUB	2013	10.22-10.52%	-	1,000	1,000	-	-
Unsecured bank loans	RUB	2014	11.3%	-	400	400	-	-
Unsecured bank loans	RUB	2013-2015	13.5%	-	112	112	-	-
Unsecured bank loans	RUB	2013	12.5%	-	20	20	-	-
Unsecured bank loans	RUB	2013-2018	13-16%	-	5	5	-	-
Unsecured loans *	RUB	2013	0-10%	0 – 7.8%	51	51	39	39
					196,453	**196,453**	**170,588**	**170,588**

(in millions of Russian roubles, unless otherwise stated)

			31 December 2012	31 December 2011	31 December 2012		31 December 2011	
	Currency	Year of maturity	Effective interest rate	Effective interest rate	Face value	Carrying amount	Face value	Carrying amount
Promissory notes								
Promissory notes	RUB	On demand	0%	0%	368	368	368	368
Promissory notes	RUB	2014	0%	0%	102	102	7	7
Promissory notes	RUB	2013	10.00%	10.00%	108	108	566	566
Promissory notes	RUB	2013	0-9%	0-9%	3	3	3	3
Promissory notes	RUB	2012-2013	-	9%	-	-	1,254	1,254
Promissory notes	RUB	2013	8.9%	8.9%	2,967	2,967	2,724	2,724
					3,548	**3,548**	**4,922**	**4,922**
Bonds								
Secured bonds	RUB	2012	-	8.54%	-	-	3,109	3,107
Secured bonds	RUB	2012	-	8.02%	-	-	3,049	3,047
Unsecured bonds	RUB	2014	8.10%	8.10%	4,684	4,684	4,682	4,682
Unsecured bonds	RUB	2012	-	8.70%	-	-	2,759	2,759
Unsecured bonds	RUB	2013	-	22-25%	1,167	709	3,235	3,235
Unsecured bonds	RUB	2015	8.8%	-	10,198	10,177	-	-
Unsecured bonds	RUB	2015	8.95%	-	4,074	4,062	-	-
Unsecured bonds	RUB	2015	9.15%	-	4,013	4,013	-	-
Unsecured bonds	RUB	2017	8.5%	-	3,049	3,042	-	-
					27,185	**26,687**	**16,834**	**16,830**
Financial lease liabilities	RUB	2013-2016	8%	8%	**2,119**	**1,684**	**5,731**	**4,905**
Secured loans					**20**	**20**	**50**	**50**
Loans from related parties *					**469**	**469**	**501**	**501**
Total debt					**229,794**	**228,861**	**198,626**	**197,796**

* Loans from government-related entities.

(in millions of Russian roubles, unless otherwise stated)

At 31 December 2012 bank loans in the amount of RUB 20 million (31 December 2011: RUB 50 million) are secured over property, plant and equipment in the amount of RUB 42 million (31 December 2011: RUB 67 million) (see Note 12).

As at 31 December 2011 bonds in the amount of RUB 6,154 million are secured by third party guarantees.

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

For more information about the Group’s exposure to interest rate risk, see Note 25.

Financial lease liabilities are payable as follows:

	2012			2011		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	1,511	(264)	1,247	3,605	(435)	3,170
Between one and five years	599	(169)	430	2,087	(382)	1,705
More than five years	9	(2)	7	39	(9)	30
	2,119	**(435)**	**1,684**	**5,731**	**(826)**	**4,905**

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

22 Employee benefits

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

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2012		31 December 2011	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Total present value of obligations	15,782	664	13,655	750
Unrecognised actuarial losses	(4,856)	-	(2,673)	-
Unrecognised past service cost	(1,660)	-	(2,072)	-
Recognised liability for defined benefit obligations	**9,266**	**664**	**8,910**	**750**

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

	2012		2011	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Defined benefit obligations at 1 January	13,655	750	12,695	1,134
Benefits paid by the plan	(1,764)	(72)	(1,816)	(68)
Current service costs	736	59	766	74
Interest on obligation	1,077	48	956	92
Actuarial losses/(gains)	2,529	44	613	(568)
Past service costs	453	(162)	454	86
Curtailments and settlements	(904)	(3)	(13)	-
Defined benefit obligations at 31 December	**15,782**	**664**	**13,655**	**750**

(c) Expenses recognised in profit or loss:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Current service costs	736	59	766	74
Interests on obligation	1,077	48	956	92
Recognised actuarial losses/(gains)	193	44	165	(568)
Recognised past service costs	688	(162)	939	86
Curtailments and settlements	(574)	(3)	(5)	-
Total periodical pension cost	**2,120**	**(14)**	**2,821**	**(316)**

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

(in millions of Russian roubles, unless otherwise stated)

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

	2012		2011	
	Post employment benefits	**Other long-term benefits**	**Post employment benefits**	**Other long-term benefits**
Recognised liability in the statement of financial position for defined benefit obligations as at 1 January	8,910	750	7,905	1,134
Total periodical pension cost	2,120	(14)	2,821	(316)
Benefits paid by the plan	(1,764)	(72)	(1,816)	(68)
Recognised liability in statement of financial position for defined benefit obligations as at 31 December	**9,266**	**664**	**8,910**	**750**

(d) Actuarial assumptions

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

	2012	**2011**
Discount rate at 31 December	7.10%	8.50%
Future salary increases	5.00%	5.50%
Inflation rate	5.00%	5.50%
Average future working life (yrs)	11	11
Mortality table	2002	2002

(e) Experience adjustments

	2012	**2011**	**2011**	**2009**
Total present value of defined benefit obligations	16,446	14,405	13,829	11,425
Experience adjustment on defined benefit obligations	828	807	1,001	1,156

(in millions of Russian roubles, unless otherwise stated)

23 Trade and other payables

	31 December 2012	31 December 2011
Non-current accounts payable		
Trade payables	3,293	94
Other payables and accrued expenses	1,496	1,520
Total financial liabilities	**4,789**	**1,614**
Advances from customers	14,079	28,467
	18,868	**30,081**
Current accounts payable		
Trade payables	72,105	70,090
Other payables and accrued expenses	5,125	5,930
Payables to employees	12,273	12,287
Dividends payable	35	27
Total financial liabilities	**89,538**	**88,334**
Advances from customers	71,762	65,501
	161,300	**153,835**
Taxes payable		
Value added tax	3,232	1,405
Property tax	416	393
Social security contributions	1,986	1,366
Other taxes payable	1,329	1,690
	6,963	**4,854**
	168,263	**158,689**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 25.

24 Provisions

	31 December 2012	31 December 2011
Balance at 1 January	5,977	2,825
Provisions raised during the year	11,699	5,755
Provisions reversed during the year	(2,505)	(1,005)
Provisions used during the year	(1,065)	(1,598)
Balance at 31 December	**14,106**	**5,977**

Provisions relate to legal proceedings and unsettled claims against the Group.

25 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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

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

(in millions of Russian roubles, unless otherwise stated)

Exposure to credit risk

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

	Carrying amount	
	31 December 2012	**31 December 2011**
Promissory notes	4,972	6,412
Loans and receivables	69,045	53,516
Bank deposits, cash and cash equivalents	69,790	54,720
Financial assets related to employee benefit fund	5,563	5,476
	149,370	**120,124**

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

	Carrying amount	
	31 December 2012	**31 December 2011**
North-West region	8,377	5,366
Central region	29,950	21,381
Ural and Volga region	8,658	8,847
South region	7,980	5,962
Siberian region	7,349	6,112
Other regions	134	101
	62,448	**47,769**

The Group’s ten most significant debtors account for RUB 21,230 million of the trade receivables carrying amount at 31 December 2012 (2011: RUB 18,669 million).

Impairment losses

The aging of receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
	31 December 2012	**31 December 2012**	**31 December 2011**	**31 December 2011**
Not past due	46,449	(1,330)	36,875	(1,142)
Past due less than 3 months	15,685	(3,483)	9,552	(1,608)
Past due more than 3 months and less than 6 months	7,599	(2,660)	4,960	(1,833)
Past due more than 6 months and less than 1 year	9,319	(4,034)	6,807	(2,961)
Past due more than 1 year	18,109	(16,689)	18,733	(16,110)
	97,161	**(28,196)**	**76,927**	**(23,654)**

(in millions of Russian roubles, unless otherwise stated)

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

	31 December 2012	31 December 2011
Balance at 1 January	(23,654)	(20,982)
Increase during the period	(17,448)	(11,121)
Amounts written off against trade and other receivables	2,371	4,996
Decrease due to reversal	10,535	3,453
Balance at 31 December	**(28,196)**	**(23,654)**

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

No other financial assets are past due or impaired.

(c) Liquidity risk

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

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

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

(in millions of Russian roubles, unless otherwise stated)

31 December 2012

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	196,942	244,353	50,009	64,052	58,194	40,606	15,990	15,502
Bond issued	26,687	32,984	2,389	15,232	11,133	353	3,329	548
Promissory notes	3,548	3,654	3,528	126	-	-	-	-
Financial leasing	1,684	2,119	1,511	329	136	99	35	9
Trade and other payables	94,327	94,908	89,639	5,054	140	28	9	38
	323,188	**378,018**	**147,076**	**84,793**	**69,603**	**41,086**	**19,363**	**16,097**
Financial guarantees		**8**	**8**					

31 December 2011

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	171,139	220,255	23,684	45,846	36,265	60,391	29,779	24,290
Bond issued	16,830	18,234	13,068	368	4,798	-	-	-
Promissory notes	4,922	5,417	2,485	2,932	-	-	-	-
Financial leasing	4,905	5,731	3,605	1,569	289	126	103	39
Trade and other payables	89,948	90,375	88,376	1,400	173	188	32	206
	287,744	**340,012**	**131,218**	**52,115**	**41,525**	**60,705**	**29,914**	**24,535**
Financial guarantees	**-**	**767**	**767**	**-**	**-**	**-**	**-**	**-**

(d) Market risk

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

(i) Currency risk

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

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

(ii) Interest rate risk

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

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

Fair value sensitivity analysis for fixed rate instruments

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

(in millions of Russian roubles, unless otherwise stated)

(e) Fair values versus carrying amounts

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

		31 December 2012		31 December 2011	
	Note	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and receivables	17	69,045	69,045	53,516	53,516
Available-for-sale financial assets	14	573	573	747	747
Promissory notes	14	4,972	4,972	6,412	6,412
Bank deposits, cash and cash equivalents	14, 18	69,790	69,790	54,720	54,720
Financial assets related to employee benefit fund	14	5,563	5,563	5,476	5,476
Non-current and current debt	21	(228,861)	(215,706)	(197,796)	(187,191)
Trade and other payables	23	(94,327)	(94,327)	(89,948)	(89,948)
		(173,245)	**(160,090)**	**(166,873)**	**(156,268)**

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

The interest rate used to discount estimated cash flows for non-current and current debt for determination of fair value as at 31 December 2012 was 11.17% (31 December 2011: 10.7%).

(f) Fair value hierarchy

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2012				
Available-for-sale financial assets	573	-	-	573
	573	**-**	**-**	**573**
31 December 2011				
Available-for-sale financial assets	747	-	-	747
	747	**-**	**-**	**747**

(in millions of Russian roubles, unless otherwise stated)

(g) Capital management

Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as net profit after tax divided by total shareholders' equity. The Board of Directors monitors the level of dividends to ordinary shareholders. The Board of Directors aims to ensure annual growth of dividends per share, and is developing a proposal on the level of dividends to be paid to shareholders, to be approved at the annual shareholders meeting in accordance with the Dividend Policy.

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.

The Group's debt to capital ratio at the end of the reporting period was as follows:

	31 December 2012	**31 December 2011**
Total liabilities	478,050	435,200
Less: cash and cash equivalents	(35,691)	(48,853)
Net debt	**442,359**	**386,347**
Total equity	494,686	443,877
Debt to capital ratio at 31 December	**89.42%**	**87.04%**

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.

(in millions of Russian roubles, unless otherwise stated)

26 Operating leases

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

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

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

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 December 2012	**Year ended 31 December 2011**
Less than one year	4,234	3,735
Between one and five years	7,046	7,011
More than five years	33,954	30,145
	45,234	**40,891**

During the year RUB 5,256 million was recognised in the statement of comprehensive income in respect of operating leases (2011: RUB 6,087 million).

27 Commitments

As at 31 December 2012 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 114,449 million (as at 31 December 2011: RUB 98,887 million).

28 Contingencies

(a) Insurance

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

(b) Taxation contingencies

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group, other than disclosed in Note 28(f) below.

(d) Environmental matters

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

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

(e) Guarantees

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

	Amount on contract 31 December 2012	**Amount on contract 31 December 2011**
OJSC "Rosbank"	-	682
OJSC "Sberbank"	8	73
OJSC "VTB Bank"	-	10
OJSC "Alpha Bank"	-	2
	8	**767**

(f) Other contingencies

Management believes that all Group's sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property by the Group ("last-mile") there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased "last-mile" grids and courts agree with the customers' view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim has individual legal circumstances and respective estimation should be based on variety of assumptions and judgments, which makes it impracticable. As at 31 December 2012 the Group was a defendant in "last-mile" lawsuits for the amount of RUB 14,634 million (31 December 2011: 11,690 million). Management believes that the outflow of economic benefits under these proceedings in the amount of RUB 2,567 million is probable and as a result a provision was recognised for this amount as at 31 December 2012.

(in millions of Russian roubles, unless otherwise stated)

29 Related party transactions

(a) Control relationships

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

(b) Transactions with associates

The Group had the following significant balances with associates:

	Outstanding balance 31 December 2012	**Outstanding balance 31 December 2011**
Accounts receivable	238	97
	238	**97**

(c) Management remuneration

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

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

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

	Year ended 31 December 2012	**Year ended 31 December 2011**
Salaries and bonuses	3,325	2,610

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

(d) Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2012 constitute 30% (2011: 30%) of total Group revenues, including 33% (2011: 32%) of electricity transmission revenues.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2012 constitute 56% (2011: 57%) of total transmission costs.

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

(e) Pricing policies

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

30 Events after the reporting period

(a) Issuance of additional shares

On 4 March 2013 the placement of the additional share issue of the Company (see Note 19) was completed. 9,375,608,049 shares were placed for the amount of RUB 20,251 million paid in cash.

On 5 April 2013 the Board of Directors of the Company recommended the General Shareholders Meeting to increase the Company's charter capital through issuance of 161,066,440,775 additional ordinary shares with a par value of 1 rouble each under an open subscription. The offering price was determined at 2.79 roubles per share.

(b) Managing company

On 5 April 2013 the Board of Directors of the Company recommended the General Shareholders Meeting to early terminate an agreement signed between JSC "IDGC Holding" and Open Joint Stock company "Federal Grid Company of Unified Energy System" (hereinafter referred to as JSC "FGC UES") by which the powers of the sole executive body of JSC "IDGC Holding" were transferred to JSC "FGC UES".

(c) Status of electricity supplier

From February 2013, pursuant to orders of the Russian Ministry of Energy, "On the transfer of the functions of electricity supplier" JSC IDGC of Siberia, JSC IDGC of North-West, JSC IDGC of Centre, JSC IDGC of Centre and Volga Region, JSC IDGC of Volga undertook the functions of electricity supplier in Bryansk, Oryol, Kursk, Omsk, Novgorod, Ivanovo, Tula, Penza regions and Karelia republic. Hence, in addition to performing power transmission services, the group subsidiaries commenced performing 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. The functions of the electricity supplier will be undertaken by these subsidiaries until the effective date of the decision to provide the tender winner with the electricity supplier status in the abovementioned operating areas, but for not more than 12 months.