Open joint stock company “Kubanenergo”
Consolidated financial statements for the year ended 31 December 2012

KMPG

Auditor’s opinion

To shareholders of Open joint stock company of power industry and electrification of Kuban

We have audited the accompanying consolidated financial statements of Open joint stock company of power industry and electrification of Kuban (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.

Responsibility of the auditing entity for accounting report

Management of the Company bears responsibility for preparation and credibility of the accounting report in accordance with Russian rules of preparing the accounting report and for system of internal audit necessary for preparation of accounting report without material misstatements that can be caused by fraud or faults.

Responsibility of the auditor

The responsibility of the auditor consists in providing the opinion on credibility of the accounting report on the basis of the carried out audit. We have carried out the audit in accordance of federal standards of audit activities. These standards require the observance of code of ethics as well as planning and performing the audit the way to make sure that the accounting report does not content material misstatements.

The audit presupposed the audit procedures aimed to find the audit evidences proving the figures in accounting report and the disclosed information. The choice of the procedures is the subject-matter of our estimations that are based on the risk assessment of the material misstatements caused by fraud or faults. During the risk assessment we checked the system of internal audit (which provides preparation and credibility of accounting report) in order to choose the appropriate audit procedures, but not for evaluation of the effectiveness of internal audit system.

The audit also included the appraisal of the accounting policy and validity of estimated figures, as well as the appraisal of performance of accounting report in general.

We consider the proofs found during the audit to be enough to give qualified opinion on the credibility of the accounting report.

Reasons to give qualified opinion

In accordance with Company’s accounting policy objects of fixed assets, except for land plots, are accounted in accounting report by current (replacement) costs. The Company did not reevaluate the fixed assets as of 31 December 2012 and the last reevaluation of fixed assets was carried out in 1 January 2008. As of 31 December 2012 there is possibility that current (replacement) costs may significantly differ from the cost specified in accounting report. It is not possibly to exactly evaluate the influence of misstatement on the accounting report.

Qualified opinion

We consider that except the influence of the fact specified above, the attached to the Auditor’s report accounting balance truly depicts the financial state of the Company as of 31 December 2012, the results of business activity and cash flow in 2012, in accordance with Russian standards of preparing accounting statements.

Utmost importance

With leaving the same our opinion on the reliability of the accounting statements, we point out the information on corrections for 2011(specified in chapter 5 of explanations to the accounting statements) introduced by the Company to the accounting statements in 2012. During the audit of accounting report for 2012 the corresponding procedure have been performed in relation to the specified corrections.

Other information

The audit of accounting statements for 2011 was performed by other auditor, which in its auditor’s opinion dated February 28, 2012 expressed unmodified opinion

Deputy director of “KMPG” CJSC
(attorney dated 28 October 2011 No.48/11) Zaitsev S.V.

April 22, 2013

Moscow, Russian Federation

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	6	27 769 135	28 795 517
Operating expenses	7	(31 720 293)	(29 766 402)
Other operating income/(expenses), net	8	45 557	82 351
Results from operating activity		(3 905 601)	(888 534)
Finance income	10	448 699	352 964
Finance costs	10	(827 282)	(830 470)
Net finance costs		(378 583)	(477 506)
Loss before income tax		(4 284 184)	(1 366 040)
Income tax benefit	11	793 039	398 417
Loss and aggregate loss during reporting period		(3 491 145)	(976 623)
Aggregate loss, attributable to:			
Shareholders of the Company		(3 491 145)	(976 623)
Loss per share			
Loss per share per share - basic and diluted (in Russian Rubles)	20	(26.45)	(10.10)

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

Acting director general Gavrilov A.I.

Chief accountant Loskutova L.V.

	Notes	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Non-current assets				
Property, plant, equiopment	12	27 411 467	22 508 972	17 659 565
Intangible assets	13	257 305	216 249	182 963
Investments and financial assets	14	154 799	170 492	183 152
Current accounts receivable and prepayments	17	8 667	4 975	6 806
Deferred tax assets	15	1 561 257	830 669	742 757
Total non-current assets		29 393 495	23 731 357	18 775 243
Current assets				
Inventories	16	1 021 980	999 067	923 009
Income tax receivable		4 455	288 534	7 503
Current accounts receivable and prepayments	17	4 206 661	3 357 779	2 314 890
Cash and cash equivalents	18	4 298 307	5 698 530	8 896 806
Total current assets		9 531 403	10 343 910	12 142 208
TOTAL ASSETS		38 924 898	34 075 267	30 917 451
EQUITY AND LIABILITIES				
Equity				
Share capital	19	14 294 283	9 746 094	9 019 953
Share premium		3 428 746	3 272 288	2 655 649
Retained losses		(5 690 061)	(2 198 916)	(1 222 293)
Total equity attributable to equity holders of the Company		12 032 968	10 819 466	10 453 309
Non-current liabilities				
Loans and borrowings	21	5 917 000	10 022 165	7 548 886
Financial lease liabilities	22	3 853	15 557	80 860
Employee benefits	23	227 463	210 798	220 002
Trade and other accounts payable	24	262 360	55 197	29 679
Total non-current liabilities		6 410 676	10 303 717	7 879 427
Current liabilities				
Loans and borrowings	21	10 025 584	5 235 233	5 352 976
Financial lease liabilities	22	11 704	63 115	149 597
Trade and other accounts payable	24	8 797 791	6 149 779	6 082 888
Provisions	25	1 645 956	1 503 272	999 114
Income tax payable		219	685	140
Total current liabilities		20 481 254	12 952 084	12 584 715
Total liabilities		26 891 930	23 255 801	20 464 142
TOTAL EQUITY AND LIABILITIES		38 924 898	34 075 267	30 917 451

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of the consolidated financial statements set out on pages 9 to 46

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES: loss during reporting period		(3 491 145)	(976 623)
Adjustments: Depreciation and amortization	12, 13	1 331 626	1 144 431
Impairment of property, plant and equipment	12	2 957 435	-
Finance costs	10	827 282	830 470
Finance income	10	(448 699)	(352 964)
Loss on disposal of property, plant and equipment	8	7 789	19 717
Tax on income benefit		(793 039)	(389 417)
Operating profit before working capital changes and reserves		391 249	275 614
Change in trade and other receivables		(276 463)	(802 009)
Change in finance assets related to employee benefits fund		15 899	25 389
Change in inventories		(22 913)	(64 612)
Change in trade and other payables		1 448 287	(474 090)
Change in employee benefit liabilities		16 665	(9 204)
Change in provisions		206 746	757 005
Cash flows from operations before income taxes and interest paid		1 779 470	(291 907)
Income tax (paid)/returned		346 064	(792)
Interest paid		(1 483 005)	(1 081 797)
Net cash flows from operating activities		642 529	(1 374 496)
CASH FLOWS FROM INVESTING ACTIVITIES : Acquisition of property, plant and equipment and intangible assets		(7 828 245)	(5 705 927)
Proceeds from sale of property, plant and equipment		16 682	9 084
Proceeds from sale of financial assets		-	533
Interest received		446 964	339 002
Net cash flows used in investing activities		(7 364 599)	(5 357 308)
CASH FLOWS FROM FINANCING ACTIVITIES : Proceeds from loans and borrowings		5 917 000	6 104 620
Repayment of loans and borrowings		(5 236 685)	(3 761 486)
Interest paid		(63 115)	(152 386)
Proceeds from shares issued		4 704 647	1 342 780
Net cash flows from financing activities		5 321 847	3 533 528
Net decrease in cash and cash equivalents		(1 400 223)	(3 198 276)
Cash and cash equivalents at the beginning of the year	18	5 698 530	8 896 806
Cash and cash equivalents at the end of the year	18	4 298 307	5 698 530

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of the consolidated financial statements set out on pages 9 to 46

Attributable to shareholders of the Company

	Share capital	share premium reserve	Retained losses	Total equity
Balance at 1 January 2011	9 019 953	2 655 649	(1 222 293)	10 453 309
Loss for the year	-	-	(976 623)	(976 623)
Total comprehensive loss for the year			(976 623)	(976 623)
Transactions with owners, recorded direct equity Issue of shares (see Note 19)	726 141	616 639		1 342 780
Total transactions with owners, recorded directly in equity	726 141	616 639		1 342 780
Balance at 31 December 2011	9 746 094	3 272 288	(2 198 916)	10 819 466
Balance at 1 January 2012	9 746 094	3 272 288	(2 198 916)	10 819 466
Loss for the year	-	-	(3 491 145)	(3 491 145)
Total comprehensive loss for the year			(3 491 145)	(3 491 145)
Transactions with owners, recorded direct equity Issue of shares (see Note 19)	4 548 189	156 458		4 704 647
Total transactions with owners, recorded directly in equity	4 548 189	156 458		4 704 647
Balance at 31 December 2012	14 294 283	3 428 746	(5 690 061)	12 032 968

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of the consolidated financial statements set out on pages 9 to 46

1. General Provisions

The Group and its Activity

In 1993 Krasnodar Production Association of Power Industry and Electrification "Krasnodarenergo" was reorganized into an Open Joint Stock Company of Power Industry and Electrification of Kuban (hereinafter - Kubanenergo or the Company) pursuant to the Decree of the President of the Russian Federation dated August 14, 1992 No. 922 “On peculiarities of the reorganization of state enterprises, associations and organizations of the fuel and energy complex in joint stock companies”, the Decree of the President of the Russian Federation dated August 15, 1992 No.923 “On organization of the control of the electric power complex of the Russian Federation in terms of privatization, the Decree of the President of the Russian Federation dated November 5, 1992 , No.1334 “On the implementation of the Decree of the President of the Russian Federation dated August 14, 1992 No. 922 on peculiarities of the transformation of state enterprises, associations and organizations of the fuel and energy sector into joint stock companies in power industry”.

Legal address (location) of the Company: 2 Stavropolskaya str., Krasnodar, Krasnodar region, Russia, 350033

The principal activity of the Company is rendering services on transmission of electric energy via networks, as well as provision of services for technological connection of consumers to the networks.

The group of companies “Kubanenergo” (hereinafter - the Group) consists of “Kubanenergo” JSC and its affiliates, specified below:

Affiliated company	Activity	Share, %		
		31 December 2012	31 December 2011	1 January 2011
Recreation Centre “Plamya” JSC	Recreation organization	100	100	100
Recreation Centre “Energetik” JSC	Recreation organization	100	100	100
“Energoservis Kuban” JSC	Repair services	100	100	-
“Krasnodarenergosetremont” JSC	Repair services	-	-	100

Group formation

Over the past few years, Russian electric energy sector went through a process of reform, the goal of which was to establish a competitive electricity market and the environment in which the Group can raise the funds needed to maintain and expand production capacity.

In January 2011 “Kubanenergo” established a subsidiary company “Energoservis Kuban” with a registered capital of 100 thousand rubles. The main activity of “Energoservis Kuban” is the maintenance of electricity networks.

In January 2011 “Krasnodarenergosetremont” was closed. Net profit earned by the subsidiary in 2011 upto the date of disposal, was insignificant.
On July 1, 2008 Russian Open Joint Stock Company RAO “Unified Energy System of Russia” (hereinafter - RAO “UES of Russia”) ceased to exist as a separate legal entity and transferred the shares of the Company to the newly formed Joint Stock Company “Holding of Interregional Distribution Grid Companies” (hereinafter - "IDGC Holding" JSC), which was renamed in April 2013 in “Russian Grids”.
As of December 31, 2012, December 31, 2011 and January 1, 2011 the Group was under the control of “DGC Holding” JSC.

Relations with the state and current legislation
The Group's activity is a natural monopoly, connected with the state. The Russian government has a direct impact on the Group's activity through regulation of tariffs.
In accordance with Russian legislation, the Group's tariffs are regulated by the Federal Tariff Service and the regional energy commissions.
Now the system of tariff regulation in Russian energy sector is in the process of reform. On the territory of the Russian Federation for the calculation of tariffs method of the return on invested capital (RAB-regulation) was introduced.

Business environment
The Group operates mainly in the Russian Federation. Accordingly, the Group is influenced by the economic and financial markets of the Russian Federation, which display characteristics of developing market. Legal, tax and regulatory systems continue to evolve, however, involve varying interpretations and requirements, which are also subject to frequent changes, which, together with other legal and fiscal impediments contribute to the challenges faced by companies doing business in the Russian Federation. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. Principals of preparation of financial report

Statement of compliance
The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS), as required by federal law No. 208-FZ “On the consolidated financial statements”. The group also prepares consolidated financial statements in English in accordance with International Financial Reporting Standards approved by the International Accounting Standards Board.
First-time application of IFRS
The consolidated financial statements are prepared in accordance with IFRS (IFRS) 1 “First-time Adoption of International Financial Reporting Standards” (IFRS). The Group's date of transition to IFRS is 1 January, 2011.

The accounting policies described in Notes 3 were applied when making the consolidated financial statements for the year ended December 31, 2012 and December 31, 2011, and when preparing the opening balance of the consolidated statement of financial position in accordance with IFRS on January 1, 2011 (the Group's date of transition to IFRSs).

The parent company (IDGC Holding JSC) has adopted IFRS starting from earlier date than January 1, 2011, therefore, the assets and liabilities of the Company and its subsidiaries as of that date were assessed at the same carrying value, which is presented in the consolidated financial statements of the parent company.

As the Group did not prepare consolidated financial statements under Russian accounting standards, the reconciliation of capital and loss are recognized in accordance with national accounting rules, capital and loss for the period recognized in accordance with IFRS is not provided.

The basis for assessment

The consolidated financial statements are prepared on the historical (original) cost except the fixed assets as of 1 January 2011, which were valued by balance cost, specified in consolidated IFRS financial statements of IDGC Holding’ JSC, within the framework of the application by the Group of IFRS as of January 1, 2011 (see Notes 12).

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 thousand.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect how the accounting policies are applied and in which sums of the assets, liabilities, income and expenses are reported. Actual results may differ from these estimates.

And assumptions and made on their basis estimates are analyzed for necessity to change them. Revisions in accounting estimates are recognized in the reporting period in which the estimates were revised and in any future periods affected.

Information about critical judgments made when applying accounting policies that have the most significant effect on the sums recognized in the consolidated financial statements is included in the following notes:

• Note 12 - impairment of non-financial assets
• Note 15 - deferred tax assets
• Note 26 - provisions in respect of trade and other receivables

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 25 - reserves
• Note 28 - contingent liabilities.

3. General provisions on accounting policy

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

Basis of consolidation

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

Financial instruments

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 classifies non-derivative financial assets into the following categories: loans and receivables.

Loans and receivables

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

Cash and cash equivalents comprise cash balances, and highly liquid investments with maturities of three months or less.

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 trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial 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.

Share capital

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

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. 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 of assets and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

Subsequent costs

The costs associated with the replacement of part (major component) of property, plant and equipment, increase the balance cost of the item if the probability that the Group will generate future economic benefits from the part is high and its cost can be measured reliably. The balance cost of the replaced part is derecognized. The costs of repairs and maintenance of property, plant and equipment are recognized in profit or loss when incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

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

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

Production buildings	7-50 years
Transmission network	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 necessary.

Intangible assets

Initial calculation

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

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.

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 necessary.

Leased assets

Leases in terms of which the Group takes 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 lease contracts are considered as operating leases and the leased assets are not recognised in the consolidated statement of financial position.

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

Impairment

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

Employee benefits

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.

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 unrecognized 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 recognizes 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 recognizes all expenses related to defined benefit plans in personnel expenses in profit or loss.

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.

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.

Revenue

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.

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.

Other revenue

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.

Other expenses

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.

Social expenditures

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.

Finance income and costs

Finance income comprises interest income on funds invested, 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.

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.

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

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

Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are 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.

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. Inter-segment pricing is determined on common commercial basis.

Related parties

As the Group is an enterprise related with the state, it applies the exception for disclosure of information on transactions with companies that are related parties, because the Russian government has control, joint control or significant influence.

As the quantitative characteristics of the transactions with related parties the Group discloses its revenue from companies related to the state, as well as the share of key purchases from such companies.

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.
- Amendments to IFRS 7 "Financial Instruments: disclosure of information" – "Offset of financial assets and financial liabilities" includes new requirements on disclosure of information on financial assets and liabilities that are offset in the report on financial condition or are the subject of the general agreement on similar agreements. The amendments shall be applied retrospectively for annual periods beginning on January 1, 2013 or later.
- 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 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.

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.

Non-derivative financial liabilities

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

5. Operating segments

The Group has one reportable segment, as described below, which is the Group's strategic business unit. The strategic business unit offers electricity distribution services including technological connection services in geographical regions of the Russian Federation (Krasnodar region and Republic of Adygeya) and is managed as one unit. The "other" segment includes operating segments such as rent services and repair and maintenance services.

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.

Segments' capital expenditures are the total amount of the expense on the acquisition of fixed assets during the year. Key indicators of segments are presented and analysed by the Management Board and the Group and are described in the tables below:

As of the year ended 31 December 2012:

	Kubanenergo	**Other segments**	**Total**
Revenue from external customers	28 118 169	47 988	**28 166 157**
Inter-segment revenue	337	22 908	**23 245**
Total segment revenue	**28 118 506**	**70 896**	**28 189 402**
Operating (loss)/profit	**(701)**	**7 958**	**7 257**
Finance income	446 963	28	**446 991**
Finance costs	(1 462 895)	(17)	**(1 462 912)**
(Loss)/profit before the taxation	**(2 167 326)**	**6 458**	**(2 160 868)**

As of the year ended 31 December 2011

	Kubanenergo	**Other segments**	**Total**
Revenue from external customers	28 707 788	44 634	**28 752 422**
Inter-segment revenue	53	15 831	**15 884**
Total segment revenue	**28 707 8**	**60 465**	**28 189 402**
Operating (loss)/profit	**(922 322)**	**4 161**	**(918 161)**
Finance income	339 002	**-**	**339 002**
Finance costs	(1 040 253)	(61)	**(1 040 314)**
(Loss)/profit before the taxation	**(2 221 004)**	**196**	**(2 220 808**

As of 31 December 2012

	Kubanenergo	**Other segments**	**Total**
Segment assets	**42 974 070**	**72 678**	**43 046 748**
Including fixed assets	*31 207 441*	*54 869*	*31 262 310*
Segment's liabilities	**26 392 807**	**12 281**	**26 405 088**
Capital expenditures of the segment	**9 289 933**	**2 339**	**9 292 272**

As of 31 December 2011

	Kubanenergo	**Other segments**	**Total**
Segment assets	**36 547 413**	**67 719**	**36 615 132**
Including fixed assets	*24 996 539*	*56 210*	*25 052 749*
Segment's liabilities	**22 769 458**	**11 782**	**22 781 240**
Capital expenditures of the segment	**4 389 061**	**348**	**4 389 409**

As of 1 January 2011

	Kubanenergo	**Other segments**	**Total**
Segment assets	**33 836 469**	**65 406**	**33 901 875**
Including fixed assets	*20 679 434*	*60 685*	*20 740 119*
Segment's liabilities	**21 923 989**	**8 687**	**21 932 676**
Capital expenditures of the segment	**2 498 470**	**265**	**2 498 735**

Reconciliations of reportable segment revenues, losses before the taxation, assets and liabilities

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Segment revenue	28 189 402	28 768 306
Intersegment revenue elimination	(23 245)	(15 884)
Adjustments for energy transmission	(404 730)	12 558
Reclassification from other income	7 708	30 537
Revenues per Consolidated Statement of Comprehensive Income	27 769 135	28 795 517

Reconciliation of reportable segment loss before the taxation is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Loss before the taxation of reportable segments	(2 160 868)	(2 220 808)
Adjustments:		
Fixed assets impairment loss	(2 957 435)	-
Capitalization of interest to property, plant and equipment	661 271	270 871
Depreciation and loss from writing-off of property, plant and equipment	198 087	294 933
Financial lease	84 076	188 524
Receivables impairment reserve	68 929	(706 624)
Revenue form energy transmission	(88 550)	533 611
Disagreements with distribution companies	(156 167)	127 153
Back-up for legal claims	64 062	188 785
Back-up for carry-over vacations and bonuses	74 612	9 808
Recognition of obligations on employee benefit	(32 358)	(2 525)
Other adjustments	(39 843)	(49 768)
Loss for the year per Consolidated Statement of Comprehensive Income	(4 284 184)	(1 366 040)

Reconciliation of reportable segment total assets is presented below:

	31 December 2012	31 December 2011	1 January 2011
Total segment assets	43 046 748	36 615 132	33 901 875
Adjustments:			
Intersegment balances	(2 132)	(2 410)	(1 778)
Intersegment investments	(62 921)	(62 921)	(62 821)
Net balance value of property, plant and equipment	(4 761 123)	(2 628 953)	(3 194 757)
Financial lease	(6 156)	(27 117)	(63 856)
Expenses of future periods	(78 521)	(51 311)	(22 428)
Provision for impairment	224 210	115 479	806 002

Writing-off of accounts receivable	(189 173)	(100 622)	(634 233)
Deferred tax	554 011	13 402	(34 476)
Recognition of financial assets related to liabilities on remuneration to employees	154 798	170 491	182 220
Other adjustments	45 157	34 097	41 703
Total assets per Consolidated Statement of Financial Position	38 924 898	34 075 267	30 917 451

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2012	31 December 2011	1 January 2011
Total segment liabilities	26 405 088	22 781 240	21 932 676
Adjustments:			
Intersegment balances	(2 132)	(2 410)	(1 778)
Financial lease	15 557	78 672	230 457
Reserve for carry-over vacations and bonuses	60 369	135 218	126 222
Shares issue	-	-	(2 384 042)
Disagreements with distribution companies	342 086	157 809	307 850
Back-up for legal claims	-	64 062	241 976
Deferred tax	(138 829)	(149 274)	(167 712)
Recognition of pension liabilities	227 463	210 798	220 002
Other adjustments	(17 672)	(20 314)	(41 509)
Total liabilities per Consolidated Statement of Financial Position	26 891 930	23 255 801	20 464 142

6. Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	26 791 921	27 548 062
Technological connection services	848 757	1 116 313
Rent fee	13 772	14 044
Other revenues	114 685	117 098
	27 769 135	**28 795 517**

7. Operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	14 163 958	14 660 849
Purchased electricity for compensation of technological losses	7 427 499	8 049 645
Losses from impairment of property, plant and equipment	2 957 435	-
Personnel costs (see Note 9)	2 917 053	2 835 133
Depreciation and amortization (Notes 12 and 13)	1 331 626	1 144 431

Raw materials and supplies	644 542	536 726
Repairs, maintenance and installation services	398 267	468 515
Impairment of trade and other receivables	375,372	26 318
Consulting, legal and audit services	271 805	235 469
Legal claims reserve	206 746	757 005
Security	157 290	171 740
Business trips expenses	104 904	51 235
Provision	99 814	113 406
Penalties on taxes	79 670	54 160
Management expense	76 485	76 487
Rent	74 831	71 217
Electricity and heating for own needs	70 596	92 152
Taxes other than income tax	46 596	209 086
Other expenses	315,804	212 828
	31 720 293	29 766 402

8. Other revenue/(expenses), net

	Year ended 31 December 2012	Year ended 31 December 2011
Unauthorized consumption of electric energy	42 305	49 481
Insurance recovery received	8 933	48 214
Losses from writing-off fixed assets	(7 789)	(19 717)
Other revenues	2 108	4 373
	45 557	82 351

9. Personnel costs

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	2 130 476	2 040 339
Taxes from salary fund	588 148	634 853
Expense in respect of post-employment defined benefit plan (Notes23)	42 026	26 299
Other	156 403	133 642
	2 917 053	2 835 133

10.Finance income and costs

	Year ended 31 December 2012	Year ended 31 December 2011
Finance income		
Interest income on bank account balance	446 964	339 002
Interest income from financial assets related to liabilities on remuneration to employees	206	13 660
Other financial incomes	1 529	302
	448 699	352 964

Finance costs		
Interest costs on credits and loans	(801 641)	(769 443)

Interest costs on obligations on financial lease	(18 626)	(42 937)
Other financial incomes	(7 015)	(18 090)
Results from discounting the financial instruments	(801 641)	(769 443)
	(827 282)	(830 470)

11.Income tax

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax		
For reporting period	(1 595)	(465)
Adjustments for previous years	64 046	301 970
	62 451	301 505
Deferred tax		
Origination and reversal of temporary differences	730 588	87 912
	730 588	87 912
	793 039	389 417

Reconciliation of effective tax rate:

	Year ended 31 December 2012	%	Year ended 31 December 2011	%
Loss before the taxation	(4 284 184)	100	(1 366 040)	100
Income tax at applicable tax rate	856 837	(20)	273 208	(20)
Non-deductible expenses	(127 844)	3	(185 762)	(14)
Adjustments over provided in prior years	64 046	(1)	301 971	(22)
	793 039	(18)	389 417	(28)

In 2011 and 2012 the Group used tariff tare in amount of 20%.

12.Property, plant and equipment

The cost of Property, plant and equipment as of 1 January 2011, the date of applying IFRS, was determined in accordance with financial report under IFRS of holding company – “Holding IDGC” JSC.

	Buildings and Constructions	Transmission networks	Equipment for electricity transmission	Other	Construction in progress	Total
Cost / Deemed cost						
Balance at 1 January 2011	2 265 490	4 952 609	5 299 970	2 859312	5 738 743	21 116 124
Additions	32 426	59 284	120 555	163 771	5 702 719	6 078 755
Transfer	383 820	793 271	601 353	562 721	(2 341 165)	-
Disposals	(1 660)	(20 403)	(4 442)	(4 926)	(73 372)	(104 803)
Balance at 31 December 2011	2 680 076	5 784 761	6 017 436	3 580 878	9 026 925	27 090 076
Balance at 1 January 2012	2 680 076	5 784 761	6 017 436	3 580 878	9 026 925	27 090 076
Additions	16 633	86 386	76 694	32 652	9 034 635	9 247 000
Transfer	910 394	1 186 389	2 188 498	476 310	(4 761 591)	-
Disposals	(2 259)	(16 137)	(879)	(24 215)	(34 772)	(78 262)
Balance at 31 December 2012	3 604 844	7 041 399	8 281 749	4 065 625	13 265 197	36 258 814
Depreciation						
Balance at 1 January 2012	(341 913)	(1 420 700)	(819 112)	(874 834)	-	(3 456 559)
Depreciation for the reporting period	(109 151)	(295 876)	(313215)	(419 190)	-	(1 137 432)
Disposals	528	8 138	1 821	2 400	-	12 887
Balance at 31 December 2011	(450 536)	(1 708 438)	(1 130 506)	(1 291 624)	-	(4 581 104)
Balance at 1 January 2012	(450 536)	(1 708 438)	(1 130 506)	(1 291 624)		(4 581 104)
Impairment	(315 527)	(425 213)	(741 036)	(176 441)	(1 299 218)	(2 957 435)
Depreciation for the reporting period	(131 041)	(336 975)	(422 832)	(435 707)	-	(1 326 555)
Disposals	553	6 354	677	10 163	-	17 747
Balance at 31 December 2012	(896 551)	(2 464 272)	(2 293 697)	(1 893 609)	(1 299 218)	(8 847 347)
Net balance cost						
at 1 January 2012	1 923 577	3 531 909	4 480 858	1 984 478	5 738 743	17 659 565
at 31 December 2011	2 229 540	4 076 323	4 886 930	2 289 254	9 026 925	22 508 972
at 31 December 20112	2 708 293	4 577 127	5 988 052	2 172 016	11 965 979	27 411 467

As of 31 December 2012 construction in progress includes advance payments for property, plant and equipment of 1 982 924 million rubles (31 December 2011: 1 998 9million rubles, 1 January 2011: 666 4633 thousand rubles) which are stated net of impairment provision of 33 298 thousand rubles (31 December 20111 and January 2011: 0 ruble).

Capitalised borrowing cost for the year ended 31 December 2012 amounted to 661 271 thousand rubles (year ended 31 December 2011: 270 883 thousand rubles) with capitalisation rates of 6.3% (year ended 31 December 2011: 4.2%).

As of 31 December 2012, 31 December 2011 and 1 January 2011 property, plant and equipment were not pledged as collateral for loans.

Determination of recoverable amount of property plant and equipment

As of 31 December 2012 as a result of impairment testing the Group recognised the impairment of basic unit for generating cash flow. 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.

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

- cash flows were projected based on actual operating results for 2012 and the business plan of the Company 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;
- forecasted transmission volumes were determined based on the annual business plan of the Company for 2013;

- 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.

In the results of the impairment test as of 31 December 2012 the Group recognized a loss from impairment of fixed assets in amount of 2 957 435 thousand rubles.

An increase of 1% in the post-tax discount rate used would have caused the recognition of impairment losses of 6 391 660 thousand rubles. A decrease of 1% in the post-tax discount rate used would have not caused any impairment losses.
An increase of 1% in revenue annually would have caused the recognition of impairment losses of 326 373 thousand rubles. A decrease of 1% in revenue annually would have caused the recognition of impairment losses of 5 587 974 thousand rubles.
An increase of 1% in operating expenses annually would have caused the recognition of impairment losses of 5 223 409 thousand rubles. A decrease of 1% in operating expenses annually would have caused the recognition of impairment losses of 692 220 thousand rubles.
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 (cash-generating units) would be equal to their book value.
As of 31 December 2011 and 1 January 2011 the Group's management also found signs of impairment and tested for impairment of Group's fixed assets. The management has prepared cash flow forecasts for the decade using the assumptions and methods similar to those used in the impairment test in 2012. Projected cash flows were discounted till their net value with the nominal pre-tax average cost of capital of 16.62% and 21.98% as of 31 December 2011 and 1 January 2011 respectively. According to the results of tests for impairment as of December 31, 2011 and January 1, 2011 the impairment was not revealed.

Leased equipment and transport

The Group leases production equipment and transport under a number of financial lease agreements.

Net balance cost of rented assets in given below:

	31 December 2012	31 December 2011	1 January 2011
Initial cost	852 454	1 025 088	1 169 250
Accumulated depreciation	(581 168)	(529 407)	(423 659)
Balance cost	271 286	495 681	745 591

13.Intangible assets

	Software	Certificates and licenses	Total
Initial cost			
Balance as of 1 January 2011	178 825	21 441	200 266
Receipt	40 285	-	40 285
Balance as of 31 December 2011	219 110	21 441	240 551
Balance as of 1 January 2012	219 110	21 441	240 551
Receipt	45 202	925	46 127
Write-off	-	(21 380)	(21 380)
Balance as of 31 December 2012	264 312	986	265 298

Accumulated depreciation			
Balance as of 1 January 2011	-	(17 303)	(17303)
Depreciation for the reporting period	(2 861)	(4 138)	(6 999)
Balance as of 31 December 2011	(2 861)	(21 441)	(24 302)
Balance as of 1 January 2012	(2 861)	(21 441)	(24 302)
Depreciation for the reporting period	(4 966)	(105)	(5 071)
Write-off	-	21 380	21 380
Balance as of 31 December 2012	(7 827)	(166)	(7 993)
Balance cost			
Balance cost as of 1 January 2011	178 825	4 138	182 963
Balance cost as of 31 December 2011	216 249	-	216 249
Balance cost as of 31 December 2012	256 485	820	257 305

14. Investments and financial assets

	31 December 2012	31 December 2011	1 January 2011
Financial assets related to obligations for employees benefits	154 798	170 491	182 220
Other short-term assets	1	1	932
	154 799	170 492	183 152

Financial assets related to obligations for employees' benefits are 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.

The Group's exposure to credit risk and impairment losses related to other investments and financial assets are disclosed in Note 26.

15. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets			Liabilities			Net		
	31 December 2012	31 December 2011	1 January 2011	31 December 2012	31 December 2011	1 January 2011	31 December 2012.	31 December 2011	1 January 2011
Property, plant and equipment	311 000	-	-	-	(199 858)	(167 049)	311 000	(199 858)	(167 049)
Inventories	15 390	9 980	8 366	-	-	-	15 390	9 980	8 366
Trade and other receivables	222 767	165 909	271 720				222 767	165 909	271 720
Financial lease liability	3 111	15 734	46 091				3 111	15 734	46 091
Loans and borrowings	-	-	-	(336)	(1 604)	(3 791)	(336)	(1 604)	(3 791)
Provisions	329 191	300 654	199 823	-	-	-	329 191	300 654	199 823
Employee benefits	14 533	8 061	7 556	-	-	-	14 533	8 061	7 556
Trade and other payables	98 660	76 826	92 715	-	-	-	98 660	76 826	92 715
Tax loss carry-forwards	566 941	454 967	287 326	-	-	-	566 941	454 967	287 326
Tax assets/(liabilities)	1 561 593	1 032 131	913 597	(336)	(201 462)	(170 840)	1 561 257	830 669	742 757
Set off of tax	(336)	(201 462)	(170 840)	336	201 462	170 840	-	-	-
Net tax assets/(liabilities)	1 561 257	830 669	742 757	-	-	-	1 561 257	830 669	742 757

Tax losses expire in 2019 - 2022. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised in respect of these items because it is probable that future taxable profit will be available against which the group can utilise the benefits there from.

Movement in temporary differences during the year

	31 December 2011	Recognised in profit or loss	31 December 2012
Property, plant and equipment	(199 858)	510 858	311 000
Inventories	9 980	5 410	15 390
Trade and other receivables	165 909	56 858	222 767
Financial lease liability	15 734	(12 623)	3 111
Loans and borrowings	(1 604)	1 268	(336)
Provisions	300 654	28 537	329 191
Employee benefits	8 061	6 472	14 533
Trade and other payables	76 826	21 834	98 660
Tax loss carry-forwards	454 967	111 974	566 941
Net deferred tax assets	830 669	730 588	1 561 257

	1 January 2011	Recognised in profit or loss	31 December 2011
Property, plant and equipment	(167 049)	(32 809)	(199 585)
Inventories	8 366	1 614	9 980
Trade and other receivables	271 720	(105 811)	165 909
Financial lease liability	46 091	(30 357)	15 734
Loans and borrowings	(3 791)	2 187	(1 604)
Provisions	199 823	100 831	300 654
Employee benefits	7 556	505	8 061
Trade and other payables	92 715	(15 889)	76 826
Tax loss carry-forwards	287 326	167 641	454 967
Net deferred tax assets	742 757	87 912	830 669

16. Inventories

	31 December 2012	31 December 2011	1 January 2011
Raw materials and consumables	770 182	751 659	694 571
Spare parts	256 638	247 690	228 438
Allowance for obsolescence of inventories	(4 840)	(282)	-
	1 021 980	999 067	923 009

As of 31 December 2012, 31 December 2012, 1 January 2011 the Group's inventories were not pledged.

17. Trade and other receivables

	31 December 2012	31 December 2011	1 January 2011
Non-current accounts receivable Trade receivables	-	308	719
Other receivables	2 921	4 667	6 087
	2 921	4 975	6 806
VAT recoverable	5 746	-	-
	8 667	4 975	6 806
Current accounts receivable Trade receivables	968 308	912 225	777 484
Trade receivables impairment allowance	(725 467)	(467 195)	(462 947)
Total balance cost of accounts receivable	242 841	445 030	314 537
Other receivables	304 700	357 293	403 095

Other receivables impairment allowance	(204 769)	(226 316)	(210 991)
Total balance cost of other accounts receivable	99 931	130 977	192 104
	342 772	576 007	506 641
Advances given	2 458 585	1 690 857	1 128 952
Advances given impairment allowance	(24 675)	(24 675)	(34 784)
Total balance cost of advances given	2 433 910	1 666 182	1 094 168
VAT recoverable	39 644	32 131	138 440
VAT on advances from customers	762 114	411 925	412 105
VAT on advances for purchase of fixed assests	212 187	353 637	112 135
VAT prepaid	339 437	268 535	6 100
Other prepaid taxes	76 597	49 362	45 301
	4 206 661	3 357 779	2 314 890

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 26.

18.Cash and cash equivalents

	31 December 2012	31 December 2011	1 January 2011
Cash at bank and in hand	4 298 307	5 698 530	8 896 806
	4 298 307	5 698 530	8 896 806

As of December 31, 2012 the cash and cash equivalents included cash balances amounting to 3 299 000 rubles (31 December 2011: 5 155 000 thousand rubles, on January 1, 2011: 7 696 500 thousand rubles), which provides for the maintenance of minimum balances on current accounts opened with banks in order to obtain additional financial income. Requirement to maintain minimum balances on current accounts does not affect the Company's ability to use the funds at any time. As of December 31, 2012 the majority of cash and cash equivalents were placed in major Russian state-owned banks. All cash and cash equivalents are in rubles.

19. Equity

Share capital

Number of shares

	The year ended 31 December 2012	The year ended 31 December 2011
Par value	100 RUB	100 RUB
On issue at 1 January	97 460 933	90 199 526
Issued during reporting period	45 481 897	7 261 407
On issue at end of year, fully paid	142 942 830	97 460 933
Registered as of January 1	194 939 693	109 040 150
Registered as December 31	142 942 830	194 939 693

Additional issue of shares

On October 25, 2010 extraordinary General meeting of shareholders approved an increase in the Company’s charter capital through issuance of 31 732 913 additional ordinary shares with a par value of 100 rubles each under an open subscription. The offering price was determined at 184.92 roubles per share. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. In 2010 Holding IDGC JDC purchased 12 892 289 shares which as of 1 January 2011 were in process of registration. In 2011 Holding IDGC JDC purchased 312 064 shares and 6 949 343 shares were purchased by third parties. The increase of capital by 726 141 thousand rubles and additional paid-in capital in amount of 616 639 thousand rubles were recognised as part of the capital as of the year ended 31 December 2011. The aim of additional issues was to attract investment for implementation of investment project of development of Sochi as mountain and climatic resort.

On November 23, 2011 extraordinary General meeting of shareholders approved an increase in the Company’s charter capital through issuance of 97 478 760additional ordinary shares with a par value of 100 rubles each under an open subscription. The offering price was determined at 103.44roubles per share. This share issuance was registered by the Federal Service for Financial Markets on 12 February 2012. In 2012 Holding IDGC JDC purchased 44 620 505 shares and 21 151 shares were purchased by third parties. The increase of capital by 4 548 189 thousand rubles and additional paid-in capital in amount of 156 458thousand rubles were recognised as part of the capital as of the year ended 31 December 2012. The aim of additional issues was to attract investment for implementation of investment project of development of Sochi as mountain and climatic resort, Programme of energy saving and increasing energy efficiency and reduction of loan portfolio of the Company.

Dividends

Company's financial statements prepared in accordance with Russian Accounting Standards (RAS) are the basis for profit distribution and other appropriations. Because of the differences between Russian accounting rules and IFRS, the Company's loss in RAS financial results may differ significantly from the values given in the consolidated financial statements prepared under IFRS. During the reporting period and before the date of the consolidated financial statements the Company did not take a decision on payment of dividends.

20. Loss per share

	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of ordinary shares (thousand shares)	132 008	96 669
Loss attributable to holders of ordinary shares (thousand shares)	(3 491 145)	(976 623)
Loss per ordinary share (in RUB) – basic and diluted	(26.45)	(10.10)

21. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 26.

	31 December 2012	31 December 2011	1 January 2011
Non-current liabilities Unsecured bank credits	5 917 000	10 000 000	7 500 000
Unsecured loans	-	22 165	48 886
	5 917 000	10 022 165	7 548 886
Current liabilities Current portion of unsecured loans and bonds			400 000
Unsecured bank credits	10 000 000	3 701 466	3 400 695
Unsecured bank credits on demand		1 500 000	1 500 000
Current portion of unsecured loans	25 584	30 082	51 781
Unsecured loans	-	3 685	500
	10 025 584	5 235 233	5 352 976

Terms and debt repayment schedule

Creditor	Nominal interest rate (fixed), %) 31 December 2012	31 December 2011	1 January 2011	Year of maturity	Balance cost 31 December 2012	31 December 2011	1 January 2011
Sberbank of Russia JSC *	8,50-9,79%	7,13-9,09%	7,13-7,50%	2011-2015	8 600 000	7 001 425	7 700 000
Gazprombank JSC*	9,60-11,00%	7,13-9,80%	7,35-7,47%	2013-2016	5 916 998	5 000 000	2 000 000
NOTA-Bank JSC	10,22-10,52%	-	-	2013	1 000 000	-	-
Rosenergobank CJSC	11,30%	-	-	2014	400 000	-	-
Centre of energy saving and new technologies*	Interest free	Interest free	Interest free	2011-2013	25 586	55 932	100 667
Nordea Bank JSC	-	9,46%	7,98%	2013	-	1 500 000	1 500 000
Moscow Bank JSC*	-	9,90%	10,09-13,00%	2012	-	1 500 000	1 100 000
BSGV CJSC	-	7,67%	7,57%	2012	-	200 041	500 000
Other **Итого**	-	-	0-17,00%	2011	**15 942 584**	**15 257 398**	**1 195 12 901 862**

*- Loans from government-related entities

All loans and borrowings are in Russian rubles.

In relation to the banking loan from "Nordea Bank" JSC constituting 1.5 million rubles on December 31, 2011 and January 1, 2011 and due in 2013, the Company had violated the condition in respect of the level of commitment ratio to EBITDA in the fourth quarter of 2011, as a result the lender got the right to demand repayment of the loan at any time, and the Group has classified this as a short-term loan on December 31, 2011. As of January 1, 2011 the Company had violated a condition for the maintenance of the coefficient of equity, as a result of the lender got the right to demand repayment of the loan at any time, and the Group has classified this as a short-term loan at December 31, 2011. In 2012, the Company paid the bank loan ahead of schedule.

22.Financial lease liabilities

The Group rents equipment and transport under several contract of financial lease. Financial lease liabilities are payable as follows:

	31 December 2012			31 December 2012			1 January 2011		
	Minimum lease payments	**Interest**	**Present value of lease**	**Minimum lease payments**	**Interest**	**Present value of lease**	**Minimum lease payments**	**Interest**	**Present value of lease**
Less than one year	17 866	(6 162)	11 704	77 140	(14 025)	63 115	203 565	(53 968)	149 597
More than five years	8 521	(4 668)	3 853	26 387	(10 830)	15 557	92 511	(11 651)	80 860
	26 387	(10 830)	15 557	103 527	(24 855)	78 672	296 076	(65 619)	230 457

All finance leases contacts are in rubles. The Group's obligations under finance lease contracts are secured by the leased assets. The fair value of finance lease obligations approximately equals their balance value. The residual value of leased assets is disclosed in Note 12.

23. 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. Amounts recognised in the Statement of Financial Position are as follows:

	31 December 2012	31 December 2012	1 January 2011
Total present value of obligations	294 199	243 022	242 395
Unrecognised actuarial losses	(50 639)	(16 234)	(2 470)
Unrecognised past service cost	(16 097)	(15 990)	(19 923)
	227 463	210 798	220 002

Expenses recognised in profit or loss:

	Year ended 31 December 2012	Year ended 31 December 2011
Current service costs	4 026	4 226
Interest expenses	18 843	18 140
Recognised past service costs	19 157	3 933
	42 026	26 299

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

Movements in the present value of the defined benefit obligations

	Year ended 31 December	Year ended 31

	2012	December 2011
Defined benefit obligations at 1 January	243 022	242 395
Current service costs	4 026	4 226
Interest on obligation	18 843	18 140
Actuarial losses	34 405	13 764
Benefits paid by the plan	(25 361)	(35 503)
Past service costs	19 264	-
	294 199	**243 022**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Defined benefit obligations at 1 January	210 798	220 002
Period net costs	42 026	26 29
Benefits paid by the plan	(25 361)	(35 503)
	227 46	**210 798**

Actuarial assumptions

	31 December 2012	31 December 2011	1 January 2011
Discount rate	7.1%	8.5%	8.0%
Future salary increases	5.0%	5.5%	5.0%
Inflation rate	5.0%	5.5%	5.0%

24.Trade and other payables

	31 December 2012	31 December 2011	1 January 2011
Non-current accounts payable			
Trade payables	1 132	868	29 679
Other payables	8 353	5 246	-
Advances received	252 875	49 083	-
	262 360	**55 197**	**29**
Current accounts payable			
Trade payables	3 415 037	2 481 765	2 703 661
Employees benefits liability	284 769	365 45	288 202
Other payables	224 004	529 799	301 287
Advances received	4 767 393	2 653 711	2 703 485
	8 691 2	**6 030 730**	**5 996 635**
Taxes payable			
Social security contributions	58 070	53 434	41 054
Property tax	19 599	17 107	16 184
Income tax	25 855	22 958	20 934
Other	3 064	25 550	8 081
	106 588	**119 049**	**86 253**
	8 797 791	**6 149 779**	**6 082 888**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 26.

25.Provisions

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at 1 January	1 503 272	999 114
Provisions raised during the year	206 746	757 005
Provisions used during the year	(64 062)	(252 847)
Balance at 31 December	**1 645 956**	**1 503 272**

Provisions are related to legal proceedings and unsettled claims against the Group

26.Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk

The group is not exposed to currency risk due to absence of activity on foreign markets as well as due to absence of credits in currency other than Russian ruble.

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

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.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected.

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

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

Exposure to credit risk

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

Balance cost

	31 December 2012	31 December 2011	1 January 2011
Trade and other receivables	345 693	580 982	513 447
Cash and cash equivalents	4 298 307	5 698 530	8 896 806
	4 644 000	**6 279 512**	**9 410 253**

The maximum exposure to credit risk for trade receivables at the reporting date by type of consumers was:

Balance cost

	31 December 2012	31 December 2011	1 January 2011
Electricity transmission customers	683 166	401 947	208 569
Connection services customers	274 977	479 754	548 382
Other customers	10 165	30 832	21 252
Minus provision for impairment	(725 467)	(467 195)	(462 947)
	242 841	**445 338**	**315 256**

Impairment losses

The table below analyses the Group's trade and other receivables into relevant groups based on the due periods:

	31 December 2012		31 December 2011		1 January 2011	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	389 423	(122 188)	301 965	(5 342)	643 847	(364 407)
Past due less than 90 days	84 656	(73 491)	290 789	(163 796)	115 867	(7 775)
Past due 90 - 180 days	146 230	(107 024)	97 715	(1 070)	20 382	(10 640)
Past due 180 - 365 days	186 546	(181 302)	247 178	(205 087)	218 883	(207 554)
Past due more than 1 year	469 074	(446 231)	336 846	(318 216)	188 406	(83 562)
	1 275 929	**(930 236)**	**1 274 493**	**(693 511)**	**1 187 385**	**(673 938)**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at 1 January	693 511	673 938
Accrued for reporting period	462 539	26 318
Amounts written off against trade receivables	(138 647)	(6 745)
Decrease due to reversal	(87 167)	-
Balance at 31 December	930 236	693 511

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 Group had a loss for the year ended 31 December 2012 and 31 December 2011 in the amount of 3 491 145 rubles and 976 623 thousand rubles respectively. As of 31 December 2012 the Group's working capital deficit (mainly related to short-term borrowings) amounted to 10 949 851 rubles. In 2013 the Group intends to refinance a large portion of short-term borrowings in the same banks and generate positive cash flows from operating activities is mainly due to the increase in tariffs for electricity transmission and optimization of costs and working capital.

Management considers that the resolution of trade and other payables will be covered by cash flow from operating activities. Therefore, management believes that the principle of continuity is an adequate base for making these statements.

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	Balance amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	> 4 years
Non-derivative financial liabilities as of 31 December 2012							
Loans	15 942 584	18 515 291	11 405 118	995 700	2 963 643	3 150 830	
Finance lease liability	15 557	26 387	17 866	4 956	3 565	-	-
Trade and other payables	3 648 526	3 651 918	3 639 041	7 294	1 410	985	3 188
Total	**19 606 667**	**22 193 596**	**15 062 025**	**1 007 950**	**2 968 618**	**3 151 815**	**3 188**

	Balance amount	Contractual cash flows	Non-fixed deposit	0-1 years	1-2 years	2-3 years	3-4 years	> 4 years
Non-derivative financial liabilities as of 31 December 2011								
Loans	15 257 398	18 425	1 500 000	6 265 010	5 010 631	535 521	1 946 918	3 167 808
Finance lease liability	78 672	103 527	-	77 140	17 866	541 887	1 951 893	3 171 981
Trade and other payables	3 017 678	3 020 835	-	3 011 564	2 278	1 410	1 140	4 173
Total	**18 353 748**	**21 550 250**	**1 500 000**	**9 353 714**	**5 030 775**	541 887	1 951 893	3 171 981

	Balance amount	Contractual cash flows	Non-fixed deposit	0-1 years	1-2 years	2-3 years	3-4 years	> 4 years
Non-derivative financial liabilities as of 1 January 2011								
Loans	12 901 862	14 465 556	1 500 000	6 082 779	2 463 485	4 419 292	-	-
Finance lease liability	230 457	296 076	-	203 565	35 348	1 187	-	-
Trade and other payables	3 034 627	3 041 781	-	3 004 948	35 348	1 187	298	-
Total	**16 166 946**	**17 803 413**	**1 500 000**	**9 291 292**	**2 575 973**	**4 435 850**	**298**	**-**

Market risk

Market risk is the risk that changes in market prices, 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 optimizing the return.

Interest rate risk

The Group's income and operating cash flows are largely independent of changes in market interest rates. The Group is exposed to interest rate risk only through market value fluctuations of loans and borrowings. The interest rates on most loans and borrowings are fixed. Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt).

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

Fair value sensitivity analysis for fixed rate instruments

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

Fair values

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

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

Capital management

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

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

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

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

27. 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:

	31 December 2012	31 December 2011	1 January 2011
Less than one year	30 429	21 593	15 174
Between one and five years	92 308	70 882	49 768
More than five years	819 243	663 801	449 707
	941 980	**756 276**	**514 649**

During the year 74 831 thousand rubles was recognised in the statement of comprehensive income in respect of operating leases (31 December 2011: 71 271 thousand rubles).

28. Contingencies

As of 31 December 2012 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for 17.3 billion rubles (as of 31 December 2011: 10.4 billion rubles; as of 1 January 2011: 4.3 billion rubles).

Insurance

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

Legal proceedings

The Group was involved in the number of court procedures (both as a plaintiff and as a defendant) arising in the course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operation, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

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.

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.

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. The Group did not recognize any provision for those claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place.

29. Related party transactions

Control relationships

Related parties are shareholders, affiliates and entities under common ownership and control of the Group, the Board of Directors members and key management staff of the company. The Company's parent companies as of 31 December 2012 and 31 December 2011 was JSC "IDGC Holding". The party with the ultimate control over the Company is the Government of the Russian Federation which held the majority of the voting rights of JSC "IDGC Holding".

In the normal course of its business activity the Group enters into transactions with other companies, under common control of the government, including the Federal Grid Company, Russian railroads, banks controlled by the state and various state agencies. Prices on electricity, power transmission and communication services are fixed on the basis of tariffs set federal and regional bodies of tariff regulation. Bank loans are granted based on market rates. Taxes are calculated and adjusted in accordance with Russian tax legislation.

The Group's party transactions are disclosed below

Expenses

	Sum of transaction for the year ended 31 December		Balance		
	2012	2011	31 December 2012	31 December 2011	1 January 2011
Parent company					
Managing services	76 485	76 487	-	-	-
Other			4 513	-	5 310
Affilaited company					
Rent	11 127	-	-	-	-
Paymets to construction companies			4 936		37 091
Other	1 761	1 620	89 849	92 335	157 080
	89 373	78 107	94 362	97 271	199 481

Revenue

	Sum of transaction for the year ended 31 December		Balance		
	2012	2011	31 December 2012	31 December 2011	1 January 2011
Parent company					
Affilaited company					
Rent	3	3	-	-	-
Other	-	-	271	5	1 886
	3	**3**	**271**	**5**	**1 886**

Operations of capital character were disclosed in notes 19.

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.

	the year ended 31 December 2012		the year ended 31 December 2011	
	Board of Directors	Top-managers	Board of Directors	Top-managers
Salaries and bonuses	9 185	79 577	9 069	52 692

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 1% (2011: 0.3%) of total Group revenues. There was no revenue from electricity transmission to government-related entities for the year ended 31 December 2012 and the year ended 31 December 2011.

Electricity transmission costs (including compensation of technological losses) for government-related entities for the year ended 31 December 2012 constitute 22.5% (2011: 20.8%) of total transmission costs.

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

Pricing policies

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

30. Events after the reporting period

On 18 March 2013 extraordinary general meeting of Company shareholders took a decision to increase the authorized capital by placing 214 877 270 additional ordinary shares with nominal cost of 100 rubles each via public offer. The approved offering was 121.82 rubles.