OPEN JOINED STOCK COMPANY KUBANENERGO

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

Contents

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Auditors' Report

Board of Directors
Open Joint Stock Company Kuban Power and Electrification

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Kuban Power and Electrification (OJSC "Kubanenergo") (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2012, 31 December 2011 and 1 January 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012 and 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express qualified opinion on the fair presentation of these consolidated financial statements.

Basis for Qualified Opinion

We did not observe the counting of inventories stated at RUB 923,009 thousand as at 1 January 2011, because we were engaged as auditors of the Group only after this date. We were unable to satisfy ourselves as to those inventory quantities by the alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of inventories as at 1 January 2011, and the elements making up the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended 31 December 2011.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 31 December 2011 and 1 January 2011, and its financial performance and its cash flows for 2012 and 2011 in accordance with International Financial Reporting Standards.

Zaitsev S.V., Deputy Director, (power of attorney dated 28 October 2011 No. 48/11)

ZAO KPMG

22 April 2013

Moscow, Russian Federation

OJSC Kubanenergo

Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

(in thousands of Russian Roubles, unless otherwise stated)

	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 activities		**(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	389,417
Loss and total comprehensive loss for the year		**(3,491,145)**	**(976,623)**
Total comprehensive loss attributable to:			
Owners of the Company		**(3,491,145)**	**(976,623)**
Loss per share - basic and diluted (in Russian Roubles)	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 General Director **A.I. Gavrilov**

Chief Accountant **L.V. Loskutova**

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 41.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Non-current assets				
Property, plant and equipment	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
Trade and other receivables	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
Trade and other receivables	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
Accumulated losses		(5,690,061)	(2,198,916)	(1,222,293)
TOTAL EQUITY		**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
Finance lease liabilities	22	3,853	15,557	80,860
Employee benefits	23	227,463	210,798	220,002
Trade and other payables	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
Finance lease liabilities	22	11,704	63,115	149,597
Trade and other payables	24	8,797,791	6,149,779	6,082,888
Provisions	25	1,645,956	1,503,272	999,114
Income tax liabilities		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 financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

(in thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss for the year		**(3,491,145)**	**(976,623)**
Adjustments for:			
Depreciation and amortisation	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
Income tax benefit		(793,039)	(389,417)
Cash flows from operating activities before changes in working capital and provisions		**391,249**	**275,614**
Change in trade and other accounts receivable		(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 accounts payable		1,448,287	(474,090)
Change in employee benefit liabilities		16,665	(9,204)
Change in provisions		206,746	757,005
Cash flows from / (used in) operations before income tax and interest paid		**1,779,470**	**(291,907)**
Income tax return / (paid)		346,064	(792)
Interest paid (including capitalized interest)		(1,483,005)	(1,081,797)
Net cash flows from / (used in) 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 disposal of property, plant and equipment		16,682	9,084
Proceeds from sale of investments		-	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)
Repayment of finance lease liabilities		(63,115)	(152,386)
Proceeds from issue of share capital		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 cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

(in thousands of Russian Roubles, unless otherwise stated)

	Attributable to owners of the Company			
	Share capital	**Share premium**	**Accumulated 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 directly in equity				
Share issue (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 directly in equity				
Share issue (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 changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 41.

(in thousands of Russian Roubles, unless otherwise stated)

1 BACKGROUND

(a) The Group and its operations

In 1993 the Krasnodar Production Association of Power and Electrification "Krasnodarenergo" was reorganized into Kuban Power and Electrification Open Joint Stock Company (hereinafter referred to as OJSC "Kubanenergo" or "the Company") in accordance with Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992, with Decree No. 923 of the President of the Russian Federation "On Organization of Management of the Electric-Power Complex of the Russian Federation under Privatization Conditions" dated 15 August 1992, with Decree No. 1334 of the President of the Russian Federation dated 05 November 1992 "On Implementation in the Electric-Power Industry of Decree No. 922 of the President of the Russian Federation "On Particular Features of Transformation of Public Enterprises, Associations, Organizations of Fuel and Energy Complex into Joint Stock Companies" dated 14 August 1992".

The Company's registered office is located at 2, Stavropolskaya St., Krasnodar, Krasnodar Region, Russia, 350033.

The Company's principal activities are electric power transmission and technological connection services.

The Kubanenergo Group (hereinafter referred to as "the Group") comprises OJSC "Kubanenergo" and its subsidiaries presented below:

		Ownership, %		
Subsidiary	**Principal activity**	**31 December 2012**	**31 December 2011**	**1 January 2011**
OJSC "Ozdorovitelniy kompleks "Plamya"	Recreation	100	100	100
OJSC "Pansionat otdyha "Energetik"	Recreation	100	100	100
OJSC "Energoservis Kubani"	Repair service	100	100	-
OJSC "Krasnodarenergosetremont"	Repair service	-	-	100

(b) Group formation

In the past few years the Russian electric utilities industry has gone through a reform designed to introduce competition into the electricity sector and to create an environment in which the companies can raise the capital required to maintain and expand current capacity.

In January 2011 OJSC "Energoservis Kubani" was founded as a subsidiary of OJSC "Kubanenergo" with share capital amounted to RUB 100 thousand. The principal activity of OJSC "Energoservis Kubani" is provision of maintenance services for electricity grids.

In January 2011 OJSC "Krasnodarenergosetremont" was liquidated. Profit generated by this subsidiary in 2011 up to the date of disposal was not significant.

On 1 July 2008 the Unified Energy System of Russia (hereinafter referred to as "RAO UES") ceased to exist as a separate legal entity and transferred shares of the Company to Open Joint Stock Company Interregional Distribution Grid Companies Holding (hereafter, "IDGC Holding"), a newly formed state-controlled entity, which was renamed to OJSC "Russian Grids" in April of 2013.

As at 31 December 2012, 31 December 2011 and 1 January 2011 the Group is controlled by IDGC Holding.

(c) Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations through state tariffs.

In accordance with legislation, the Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Based (RAB) tariffs setting system is being implemented in the Russian Federation.

(d) Russian business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements (hereinafter "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group additionally prepares IFRS consolidated financial statements in Russian language in accordance with Federal Law No.208-FZ "On consolidated financial reporting".

(b) First time adoption

These consolidated financial statements have been prepared following the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRSs). In preparing these consolidated financial statements, the opening balance was prepared as at 1 January 2011 - the date of the Group's transition to IFRS.

The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2011 and 31 December 2012 and in the preparation of an opening IFRS consolidated statement of financial position at 1 January 2011 (the Group's date of transition).

As the Company's parent (IDGC Holding) adopted IFRS earlier than 1 January 2011, the assets and liabilities of the Company and the subsidiaries as at this date were measured at the same carrying amounts as in the consolidated financial statements of the parent.

As the Group did not prepare the consolidated financial statements under Russian Accounting Principles, no reconciliation of equity and loss determined in accordance with national accounting rules with equity and loss determined in accordance with IFRS is provided.

(c) Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for property, plant and equipment at 1 January 2011 are measured at carrying amounts included in the consolidated IFRS financial statements of IDGC Holding as part of Group's adoption of IFRSs as at 1 January 2011 (Note 12).

(d) 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, except when otherwise indicated.

(e) Use of estimates and judgements

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

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

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

- Note 12 – impairment of non-financial assets
- Note 15 – deferred tax assets
- Note 26 – impairment 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 – provisions
- Note 28 – commitments and contingencies.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening consolidated IFRS statement of financial position as at 1 January 2011 for the purposes of the transition to IFRSs. The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

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

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables 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.

Non-derivative financial assets of the Group comprise loans and receivables.

Loans and receivables

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

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

(ii) Non-derivative financial liabilities

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

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

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

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

(c) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to its carrying amounts included in the consolidated IFRS financial statements of the Company's parent – IDGC Holding.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. 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 of the Group's property, plant and equipment are as follows:

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

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

(e) Intangible assets

(i) Initial recognition

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

(ii) 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.

(iii) 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 from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

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

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

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

(f) Leased assets

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

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

(g) Inventories

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

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

(h) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of CGU. The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

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

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.

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit post-employment plans

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

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

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

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

(iii) 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.

(j) 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.

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss when the customer acceptance of the volume of electricity transmitted obtained. The tariffs for electricity transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

(ii) Connection services

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

Revenue is recognized when electricity is activated and the customer is connected to the grid network, or, for contracts where connection services are performed in stages, revenue is recognized upon stages of completion.

(iii) 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.

(l) Other expenses

(i) Lease payments

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

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

(ii) Social expenditure

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

(m) Finance income and costs

Finance income comprises interest income on funds invested, 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, 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.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised 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 is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

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

(o) Earnings per share

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

(p) Segment reporting

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

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

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

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

(q) Related parties

As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties because the Government of the Russian Federation has control, joint control or significant influence over them.

The Group discloses a share of sales to government-related entities and share of key purchases from such entities as quantitative indications of related-parties transactions.

(r) 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. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

- 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.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The Standard has not yet been endorsed in the Russian Federation.

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

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.

- 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.

- 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.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

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

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013.

4 DETERMINATION OF FAIR VALUES

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

(a) 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.

(b) Non-derivative financial liabilities

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

5 OPERATING SEGMENTS

The Group has one reportable segment, as described below, which is the Group's strategic business unit. This strategic business unit offers electricity transmission services including technological connection services in separate geographical regions of the Russian Federation (Krasnodar region and Republic of Adygeya) and is managed in common. The "other" segment includes insignificant operating segments such as rent services and repair and maintenance services. None of them meets any of the quantitative thresholds for determining reportable segments in 2012 or 2011.

Segment reports are based on the information reported in statutory accounts, which differ significantly from the consolidated financial statements prepared under IFRS. 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 financial statements to be presented in accordance with IFRS.

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

(in thousands of Russian Roubles, unless otherwise stated)

Key segment items presented to and analysed by the Management Board are presented in the tables below:
Information about reportable segments

For the year ended 31 December 2012:

	Kubanenergo	Other	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**
Segment operating (loss) / profit	**(701)**	**7,958**	**7,257**
Finance income	446,963	28	**446,991**
Finance costs	(1,462,895)	(17)	**(1,462,912)**
Segment (loss) / profit before income tax	**(2,167,326)**	**6,458**	**(2,160,868)**

For the year ended 31 December 2011:

	Kubanenergo	Other	Total
Revenue from external customers	28,707,788	44,634	**28,752,422**
Inter-segment revenue	53	15,831	**15,884**
Total segment revenue	**28,707,841**	**60,465**	**28,768,306**
Segment operating (loss) / profit	**(922,322)**	**4,161**	**(918,161)**
Finance income	339,002	-	**339,002**
Finance costs	(1,040,253)	(61)	**(1,040,314)**
Segment (loss) / profit before income tax	**(2,221,004)**	**196**	**(2,220,808)**

As at 31 December 2012:

	Kubanenergo	Other	Total
Segment assets	**42,974,070**	**72,678**	**43,046,748**
Including property, plant and equipment	*31,207,441*	*54,869*	*31,262,310*
Segment liabilities	**26,392,807**	**12,281**	**26,405,088**
Capital expenditures	**9,289,933**	**2,339**	**9,292,272**

As at 31 December 2011:

	Kubanenergo	Other	Total
Segment assets	**36,547,413**	**67,719**	**36,615,132**
Including property, plant and equipment	*24,996,539*	*56,210*	*25,052,749*
Segment liabilities	**22,769,458**	**11,782**	**22,781,240**
Capital expenditures	**4,389,061**	**348**	**4,389,409**

As at 1 January 2011:

	Kubanenergo	Other	Total
Segment assets	**33,836,469**	**65,406**	**33,901,875**
Including property, plant and equipment	*20,679,434*	*60,685*	*20,740,119*
Segment liabilities	**21,923,989**	**8,687**	**21,932,676**
Capital expenditures	**2,498,470**	**265**	**2,498,735**

(i) Reconciliation of reportable segments revenues, loss before income tax, assets and liabilities

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment revenues	**28,189,402**	**28,768,306**
Inter-segment revenue elimination	(23,245)	(15,884)
Adjustment on revenue from electricity 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**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of reportable segment loss before income tax is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment loss before income tax	**(2,160,868)**	**(2,220,808)**
Adjustments for:		
Impairment of property, plant and equipment	(2,957,435)	-
Borrowing costs capitalised to property plant and equipment	661,271	270,871
Depreciation and loss from property plant and equipment disposal	198,087	294,933
Finance lease	84,076	188,524
Impairment of accounts receivable	68,929	(706,624)
Revenue from electricity transmission	(88,550)	533,611
Disagreements with distribution selling entities	(156,167)	127,153
Accrual of provision for legal claims	64,062	188,785
Accrual of provision for unused vacations and bonuses	74,612	9,808
Recognition of long term employee benefits	(32,358)	(2,525)
Other adjustments	(39,843)	(49,768)
Loss before income tax 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 for:			
Inter-segment balances	(2,132)	(2,410)	(1,778)
Inter-segment investments	(62,921)	(62,921)	(62,821)
Net book value of property, plant and equipment	(4,761,123)	(2,628,953)	(3,194,757)
Finance lease	(6,156)	(27,117)	(63,856)
Deferred expenses	(78,521)	(51,311)	(22,428)
Impairment of trade and other receivables	224,210	115,479	806,002
Trade receivables written-off	(189,173)	(100,622)	(634,233)
Deferred tax	554,011	13,402	(34,476)
Recognition of financial assets related to long term employee benefit fund	154,798	170,491	182,220
Other	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 for:			
Inter-segment balances	(2,132)	(2,410)	(1,778)
Finance lease	15,557	78,672	230,457
Accrual of provision for unused vacations and bonuses	60,369	135,218	126,222
Issue of share capital	-	-	(2,384,042)
Disagreements with distribution selling entities	342,086	157,809	307,850
Accrual of provision for legal claims	-	64,062	241,976
Deferred tax	(138,829)	(149,274)	(167,712)
Long term employee benefits	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**

(in thousands of Russian Roubles, unless otherwise stated)

6 REVENUE

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	26,791,921	27,548,062
Connection services	848,757	1,116,313
Rental income	13,772	14,044
Other revenue	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
Impairment of property, plant and equipment (Note 12)	2,957,435	-
Personnel costs (Note 9)	2,917,053	2,835,133
Depreciation and amortization (Notes 12, 13)	1,331,626	1,144,431
Raw materials and supplies	644,542	536,726
Repairs, maintenance and installation services	398,267	468,515
Allowance for impairment of trade and other receivables	375,372	26,318
Consulting, legal and audit services	271,805	235,469
Provisions	206,746	757,005
Security services	157,290	171,740
Business trip expenses	104,904	51,235
Insurance	99,814	113,406
State duties, fines and penalties	79,670	54,160
Managing services	76,485	76,487
Rent	74,831	71,217
Electricity and heat power 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 OPERATING INCOME / (EXPENSES), NET

	Year ended 31 December 2012	Year ended 31 December 2011
Non-contractual consumption of electricity	42,305	49,481
Insurance compensation received	8,933	48,214
Loss on disposal of property, plant and equipment	(7,789)	(19,717)
Other income	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
Payroll taxes	588,148	634,853
Expense in respect of post-employment defined benefit plan (Note 23)	42,026	26,299
Other personnel costs	156,403	133,642
	2,917,053	**2,835,133**

(in thousands of Russian Roubles, unless otherwise stated)

10 FINANCE INCOME AND COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Finance income		
Interest income on cash held in banks	446,964	339,002
Interest income on defined benefit plan	206	13,660
Other finance income	1,529	302
	448,699	**352,964**
Finance costs		
Interest expenses on loans and borrowings	(801,641)	(769,443)
Interest on finance lease liabilities	(18,626)	(42,937)
Effect of discounting of financial instruments	(7,015)	(18,090)
	(827,282)	**(830,470)**

11 INCOME TAX

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax benefit		
Current year	(1,595)	(465)
Over provided in prior years	64,046	301,970
	62,451	**301,505**
Deferred tax benefit		
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 income tax	**(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
Over provided in prior years	64,046	(1)	301,971	(22)
	793,039	**(18)**	**389,417**	**(28)**

In 2012 and 2011 the Group's applicable tax rate is the income tax rate of 20%.

12 PROPERTY, PLANT AND EQUIPMENT

The cost of property, plant and equipment at 1 January 2011, the date of transition to IFRSs, was determined by reference to their carrying amounts included in the consolidated IFRS financial statements of the parent – IDGC Holding.

(in thousands of Russian Roubles, unless otherwise stated)

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed cost						
Balance as at 1 January 2011	2,265,490	4,952,609	5,299,970	2,859,312	5,738,743	21,116,124
Additions	32,426	59,284	120,555	163,771	5,702,719	6,078,755
Transfers	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 as at 31 December 2011	**2,680,076**	**5,784,761**	**6,017,436**	**3,580,878**	**9,026,925**	**27,090,076**
Balance as 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
Transfers	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 as at 31 December 2012	**3,604,844**	**7,041,399**	**8,281,749**	**4,065,625**	**13,265,197**	**36,258,814**
Depreciation and impairment						
Balance as at 1 January 2011	(341,913)	(1,420,700)	(819,112)	(874,834)	-	(3,456,559)
Charge for the year	(109,151)	(295,876)	(313,215)	(419,190)	-	(1,137,432)
Disposals	528	8,138	1,821	2,400	-	12,887
Balance as at 31 December 2011	**(450,536)**	**(1,708,438)**	**(1,130,506)**	**(1,291,624)**	**-**	**(4,581,104)**
Balance as at 1 January 2012	(450,536)	(1,708,438)	(1,130,506)	(1,291,624)	-	(4,581,104)
Impairment of property, plant and equipment	(315,527)	(425,213)	(741,036)	(176,441)	(1,299,218)	(2,957,435)
Charge for the year	(131,041)	(336,975)	(422,832)	(435,707)	-	(1,326,555)
Disposals	553	6,354	677	10,163	-	17,747
Balance as at 31 December 2012	**(896,551)**	**(2,464,272)**	**(2,293,697)**	**(1,893,609)**	**(1,299,218)**	**(8,847,347)**
Carrying amounts						
At 1 January 2011	**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 2012	**2,708,293**	**4,577,127**	**5,988,052**	**2,172,016**	**11,965,979**	**27,411,467**

As at 31 December 2012 construction in progress includes prepayments for property, plant and equipment of RUB 1,982,924 thousand (as at 31 December 2011: RUB 1,998,910 thousand; as at 1 January 201: RUB 666,463 thousand), which are stated net of impairment provision of RUB 33,298 thousand (as at 31 December 2011 and 1 January 2011: none).

The amount of capitalised interest for the year ended 31 December 2012 was RUB 661,271 thousand (2011: RUB 270,883 thousand). The capitalization rate for general purpose borrowings for the year ended 31 December 2012 was 6.3% (2011: 4.2%).

No property, plant and equipment are pledged as security for loans and borrowings as at 31 December 2012, 31 December 2011 and 1 January 2011.

Determination of recoverable amount of property plant and equipment

As at 31 December 2012, management of the Group identified impairment indicators for the Company's main cash-generating unit and performed an impairment test. The majority of the CGU'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 by management in determining the recoverable amount of cash-generating unit:

- cash flows were projected based on actual operating results for 2012 and the Company's business plan for 2013. Cash flows for the period 2014-2022 were projected as follows:
  - transmission tariffs for the period from 2013 to 2017 were estimated using a limitation of tariffs growth rate of 10% in accordance with the level of growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation No. 1178 as of 29 December 2011;
  - post 2017 transmission tariffs were estimated based on RAB methodology in accordance with Executive order by FST No. 228-e dated 30 March 2012. As per RAB regulated gross revenue should cover all operating expenses (excluding depreciation), tax payments, payback of invested capital and required fair return on the invested capital;
  - forecasted transmission volumes were determined based on the Company's annual business plan for 2013 and were fixed for the forecasted period;
  - operating costs were assumed to increase in line with consumer price index. For tariff setting purposes under RAB regulation optimisation of operating costs by 1% was assumed for each projected period;
- the cash flow forecasts were discounted to their present value at the nominal pre-tax weighted average cost of capital of 14.77%;
- terminal growth rate of the net cash flows was expected at the level of 3.2% in the post-forecasted period.

As at 31 December 2012 as a result of impairment testing the Group recognised impairment losses of RUB 2,957,435 thousand on property, plant and equipment.

An increase of 1% in the post-tax discount rate used would have caused the recognition of impairment losses of RUB 6,391,660 thousand. 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 RUB 326,373 thousand. A decrease of 1% in revenue annually would have caused the recognition of impairment losses of RUB 5,587,974 thousand.

An increase of 1% in operating expenses annually would have caused the recognition of impairment losses of RUB 5,223,409 thousand. A decrease of 1% in operating expenses annually would have caused the recognition of impairment losses of RUB 692,220 thousand.

(in thousands of Russian Roubles, unless otherwise stated)

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

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

As at 31 December 2011 and 1 January 2011, the management also identified impairment indicators and performed impairment tests for the Group's property, plant and equipment. Management prepared ten-year cash flow projections using assumptions and techniques similar to those used during 2012 impairment test. The projected cash flows were discounted at pre-tax discount rates of 16.62% at 31 December 2011 and 21.98% at 1 January 2011. Based on the results of impairment tests, management has concluded that no impairment should be recorded in these consolidated financial statements at 31 December 2011 and 1 January 2011.

Leased plant and machinery

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

The net book value of leased property, plant and equipment accounted for as part of the Group's property, plant and equipment was as follows:

	31 December 2012	31 December 2011	1 January 2011
Cost of leased assets	852,454	1,025,088	1,169,250
Accumulated depreciation	(581,168)	(529,407)	(423,659)
Net book value	**271,286**	**495,681**	**745,591**

13 INTANGIBLE ASSETS

	Software	Certificates and licenses	Total
Cost			
Balance as at 1 January 2011	178,825	21,441	200,266
Additions	40,285	-	40,285
Balance as at 31 December 2011	**219,110**	**21,441**	**240,551**
Balance as at 1 January 2012	219,110	21,441	240,551
Additions	45,202	925	46,127
Disposals	-	(21,380)	(21,380)
Balance as at 31 December 2012	**264,312**	**986**	**265,298**
Amortisation			
Balance as at 1 January 2011	-	(17,303)	(17,303)
Charge for the year	(2,861)	(4,138)	(6,999)
Balance as at 31 December 2011	**(2,861)**	**(21,441)**	**(24,302)**
Balance as at 1 January 2012	(2,861)	(21,441)	(24,302)
Charge for the year	(4,966)	(105)	(5,071)
Disposals	-	21,380	21,380
Balance as at 31 December 2012	**(7,827)**	**(166)**	**(7,993)**
Carrying amounts			
As at 1 January 2011	**178,825**	**4,138**	**182,963**
As at 31 December 2011	**216,249**	**-**	**216,249**
As at 31 December 2012	**256,485**	**820**	**257,305**

(in thousands of Russian Roubles, unless otherwise stated)

14 INVESTMENTS AND FINANCIAL ASSETS

	31 December 2012	**31 December 2011**	**1 January 2011**
Financial assets related to employee benefit fund	154,798	170,491	182,220
Other non-current assets	1	1	932
	154,799	**170,492**	**183,152**

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

For more detailed information concerning the Group's exposure to credit risks to investments and financial assets refer to Note 26.

(in thousands of Russian Roubles, unless otherwise stated)

15 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	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
Finance 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	**1,561,257**	**830,669**	**742,757**	**-**	**-**	**-**	**1,561,257**	**830,669**	**742,757**

The tax losses expire in 2019-2022 years. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have been recognised because management believes that it is probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(in thousands of Russian Roubles, unless otherwise stated)

Movements 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
Finance 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
Finance 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	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 at 31 December 2012 and 2011 and 1 January 2011 no inventories were pledged under the bank loan agreements.

(in thousands of Russian Roubles, unless otherwise stated)

17 TRADE AND OTHER RECEIVABLES

	31 December 2012	31 December 2011	1 January 2011
Non-current			
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			
Trade receivables	968,308	912,225	777,484
Trade receivables impairment allowance	*(725,467)*	*(467,195)*	*(462,947)*
Trade receivables, net	**242,841**	**445,030**	**314,537**
Other receivables	304,700	357,293	403,095
Other receivables impairment allowance	*(204,769)*	*(226,316)*	*(210,991)*
Other receivables, net	**99,931**	**130,977**	**192,104**
	342,772	**576,007**	**506,641**
Prepayments	2,458,585	1,690,857	1,128,952
Prepayments impairment allowance	*(24,675)*	*(24,675)*	*(34,784)*
Prepayments, net	**2,433,910**	**1,666,182**	**1,094,168**
VAT recoverable	39,644	32 131	138,440
VAT on advances received	762,114	411,925	412 105
VAT on prepayments for property plant and equipment	212,187	353 637	112 135
VAT prepaid	339,437	268,535	6,100
Other taxes prepaid	76,597	49,362	45,301
	4,206,661	**3,357,779**	**2,314,890**

The Group's exposure to credit risk 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 at 31 December 2012 cash and cash equivalents include balances in the amount of RUB 3,299,000 thousand (31 December 2011: RUB 5,155,000 thousand; 1 January 2011: RUB 7,696,500 thousand), which represent minimum required balances on the accounts opened with the banks in order to get additional interest income. The requirement to maintain minimum level of cash balances does not restrict the Company's ability to use cash at any time. As at 31 December 2012, majority of cash and cash equivalents are held with Russian state owned banks.

All cash and cash equivalents are denominated in RUB.

(in thousands of Russian Roubles, unless otherwise stated)

19 EQUITY

Share capital

Number of shares	**Ordinary shares**	
	Year ended 31 December 2012	**Year ended 31 December 2011**
Par value	RUB 100	RUB 100
In issue at 1 January	97,460,933	90,199,526
Issued during the year	45,481,897	7,261,407
In issue at 31 December – fully paid	**142,942,830**	**97,460,933**
Authorised at 1 January	194,939,693	109,040,150
Authorised at 31 December	142,942,830	194,939,693

Issuance of additional shares

On 25 October 2010 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 31,732,913 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 184.92. This share issuance was registered by the Federal Service for Financial Markets on 14 December 2010. During 2010 12,892,289 shares were subscribed and paid by IDGC Holding and were in process of registration as at 1 January 2011. During 2011 312,064 shares were subscribed and paid by IDGC Holding and 6,949,343 shares by 3rd parties. The amounts of RUB 726,141 thousand and RUB 616,639 thousand were recognised as share capital and share premium within equity for the year ended 31 December 2011, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development.

On 23 November 2011 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through issuance of additional 97,478,760 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 103.44. This share issuance was registered by the Federal Service for Financial Markets on 21 February 2012. During 2012 year 44,620,505 shares were subscribed and paid by IDGC Holding and 861,392 shares by 3rd parties. The amounts of RUB 4,548,189 thousand and RUB 156,458 thousand were recognized as share capital and share premium within equity for the year ended 31 December 2012, respectively. The additional shares were issued to raise capital for investment project of Sochi resort development as well as for energy saving and efficiency increase programs and to decrease the Group's loans and borrowings.

Dividends

The Company’s statutory financial statements form the basis for the distribution of profit and other appropriations. Due to differences between statutory accounting principles and IFRS, the Company’s loss in the statutory accounts can differ significantly from that reported in the consolidated financial statements prepared under IFRS.

During the reporting periods and up to the date of approval of the consolidated financial statements the Company declared no dividends.

20 LOSS PER SHARE

	Year ended 31 December 2012	**Year ended 31 December 2011**
Weighted average number of ordinary shares for the year ended 31 December (thousand of shares)	132,008	96,669
Loss attributable to the owners of the Company	(3,491,145)	(976,623)
Loss per share - basic and diluted (in RUB)	**(26.45)**	**(10.10)**

(in thousands of Russian Roubles, unless otherwise stated)

21 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to Note 26.

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

(in thousands of Russian Roubles, unless otherwise stated)

Terms and conditions of outstanding loans and borrowings were as follows:

	Nominal interest rate (fixed),%				Carrying amount		
Name of lender	**31 December 2012**	**31 December 2011**	**1 January 2011**	**Year of maturity**	**31 December 2012**	**31 December 2011**	**1 January 2011**
OJSC Sberbank*	8.50-9.79%	7.13-9.09%	7.13-7.50%	2011-2015	8,600,000	7,001,425	7,700,000
OJSC Gazprombank*	9.60-11.00%	7.13-9.80%	7.35-7.47%	2013-2016	5,916,998	5,000,000	2,000,000
JSC NOTA-Bank	10.22-10.52%	-	-	2013	1,000,000	-	-
JSC Rosenergobank	11.30%	-	-	2014	400,000	-	-
SGI Centre for Energy Efficiency and New Technologies*	Interest free	Interest free	Interest free	2011-2013	25,586	55,932	100,667
OJSC Nordea Bank	-	9.46%	7.98%	2013	-	1,500,000	1,500,000
OJSC Moscow Bank*	-	9.90%	10.09-13%	2012	-	1,500,000	1,100,000
JSC BSGV	-	7.67%	7.57%	2012	-	200,041	500,000
Other	-	-	0-17%	2011	-	-	1,195
Total					**15,942,584**	**15,257,398**	**12,901,862**

*- Loans and borrowings from government - related entities

The carrying amounts of loans and borrowings approximate their fair value.

With respect to the bank loan obtained from OJSC Nordea Bank amounting to RUB 1,500,000 thousand at 31 December 2011 and 1 January 2011 and repayable in 2013, the Company breached a loan covenant relating to the Company's debt to EBITDA ratio at the end of fourth quarter of 2011. As a result of the breach, the lender could request repayment on demand and the Group classified the loan as short-term as at 31 December 2011. As at 1 January 2011 the Company breached a loan covenant relating to the Company's equity ratio, as a result the lender could request repayment on demand and the Group classified the loan as short-term as at 1 January 2011 In 2012 The Group repaid the bank loan before the schedule maturity date.

(in thousands of Russian Roubles, unless otherwise stated)

22 FINANCE LEASE LIABILITIES

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

	31 December 2012			31 December 2011			1 January 2011		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	17,866	(6,162)	11,704	77,140	(14,025)	63,115	203,565	(53,968)	149,597
Between one and 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 leases are denominated in RUB. The Group's obligations under finance lease are secured by the lessors title to the leased assets. The fair value of the finance lease liabilities approximate to their carrying amounts.

The net book value of leased property, plant and equipment is disclosed in Note 12.

23 EMPLOYEE BENEFITS

The Group has defined benefit pension which consists of defined post-employment benefits and 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 pensioners, death benefits, jubilee benefits.

Movements in the net liability of the defined benefit obligations are as follows:

	31 December 2012	31 December 2011	1 January 2011
Present value of funded defined benefit obligations	294,199	243,022	242,395
Unrecognized actuarial losses	(50,639)	(16,234)	(2,470)
Unrecognized past service cost	(16,097)	(15,990)	(19,923)
	227,463	**210,798**	**220,002**

The amounts recognized in loss are as follows:

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

The expense is recognized in the "personnel costs" as part of operating expenses.

Movements in the present value of the Group's employee benefit obligations are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Defined benefit obligations as at 1 January	243,022	242,395
Current service cost	4,026	4,226
Interest expense	18,843	18,140
Actuarial losses	34,405	13,764
Benefits paid	(25,361)	(35,503)
Past service cost	19,264	-
	294,199	**243,022**

(in thousands of Russian Roubles, unless otherwise stated)

Movements in the Group's net benefit obligations are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Net defined benefit obligations as at the beginning of the period	210,798	220,002
Net expenses for the period	42,026	26,299
Benefits paid	(25,361)	(35,503)
	227,463	**210,798**

Principal actuarial assumptions:

	31 December 2012	31 December 2011	1 January 2011
Discount rate	7.1%	8.5%	8.0%
Salary increase	5.0%	5.5%	5.0%
Inflation rate	5.0%	5.5%	5.0%

24 TRADE AND OTHER ACCOUNTS PAYABLE

	31 December 2012	31 December 2011	1 January 2011
Non-current			
Trade payables	1,132	868	29,679
Other payables	8,353	5,246	-
Advances received	252,875	49,083	-
	262,360	**55,197**	**29,679**
Current			
Trade payables	3,415,037	2,481,765	2,703,661
Payables to employees	284,769	365,455	288,202
Other payables	224,004	529,799	301,287
Advances received	4,767,393	2,653,711	2,703,485
	8,691,203	**6,030,730**	**5,996,635**
Taxes payable			
Payments to social funds	58,070	53,434	41,054
Property tax	19,599	17,107	16,184
Personal income tax	25,855	22,958	20,934
Other taxes payable	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 liquidity risk related to trade and other payables is disclosed in Note 26.

25 PROVISIONS

	2012	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 relate to the legal proceedings against the Group and unsettled disagreements with distribution selling entities regarding compensation of technological losses.

(in thousands of Russian Roubles, unless otherwise stated)

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 does not have any exposure to foreign currency risk as no sales, purchases and borrowings are denominated in a currency other than the functional currency of Group entities, which is the RUB.

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 analysing 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 Revision 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 the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is set 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.

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

	Carrying amount		
	31 December 2012	**31 December 2011**	**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 customer was:

	Carrying amount		
	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 sales	10,165	30,832	21,252
Less impairment allowance	(725,467)	(467,195)	(462,947)
	242,841	**445,338**	**315,256**

(in thousands of Russian Roubles, unless otherwise stated)

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:

	2012	2011
Balance at 1 January	693,511	673,938
Increase during the year	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 analyse payment dates associated with financial assets, and also to forecast cash flows from operating activities.

The Group incurred losses during the years ending 31 December 2012 and 31 December 2011 in amount of RUB 3,491,145 thousand and RUB 976,623 thousand, respectively. As at 31 December 2012 the Group had a net working capital deficit of RUB 10,949,851 thousand primarily attributable to short-term loans and borrowings.

During 2013 the Group expects to refinance the majority of its short-term loans and borrowings with the same banks and generate positive operating cash flows primarily as a result of increased tariffs for transmission and optimization of costs and working capital.

Management anticipates that settlement of trade and other payables will be met out of operating cash flows. Management believes that there is no significant uncertainty regarding Group's ability to continue as going concern and going concern basis is appropriate for these financial statements.

(in thousands of Russian Roubles, unless otherwise stated)

The contractual maturities of financial liabilities presented including estimated interest payments.

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2012							
Loans and borrowings	15,942,584	18,515,291	11,405,118	995,700	2,963,643	3,150,830	-
Finance lease liabilities	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**

	Carrying amount	Contractual cash flows	Repayable on demand	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 31 December 2011								
Loans and borrowings	15,257,398	18,425,888	1,500,000	6,265,010	5,010,631	535,521	1,946,918	3,167,808
Finance lease liabilities	78,672	103,527	-	77,140	17,866	4,956	3,565	-
Trade and other payables	3,017,678	3,020,835	-	3,011,564	2,278	1,410	1,410	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**

	Carrying amount	Contractual cash flows	Repayable on demand	0-1 years	1-2 years	2-3 years	3-4 years	Over 4 years
Non-derivative financial liabilities as at 1 January 2011								
Loans and borrowings	12,901,862	14,465,556	1,500,000	6,082,779	2,463,485	4,419,292	-	-
Finance lease liabilities	230,457	296,076	-	203,565	77,140	15,371	-	-
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**	**-**

(in thousands of Russian Roubles, unless otherwise stated)

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 share capital at all times.

27 OPERATING LEASE

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 under land lease agreements 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 year 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 current year RUB 74,831 thousand (2011: RUB 71,217 thousand) was recognised in profit or loss in respect of operating leases.

28 COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2012 the Group has outstanding commitments for the acquisition and construction of property, plant and equipment of RUB 17.3 billion (31 December 2011: RUB 10.4 billion; 1 January 2011: RUB 4.3 billion).

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 generally available. The Group does not have full coverage for its stations 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.

Litigation

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 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 power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their 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

The Group 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 ("last-mile") by the Group 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 would have individual legal circumstances and respective estimation would be based on a variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

(in thousands of Russian Roubles, unless otherwise stated)

29 RELATED PARTIES TRANSACTIONS

Control relationship

Related parties include shareholders, affiliates and entities under common ownership and control with the Group and members of the Board of Directors and key management personnel. The Company's parent as at 31 December 2012, 31 December 2011 and 1 January 2011 was 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 IDGC Holding.

In the normal course of business the Group enters into transactions with other entities under common government control including Federal Grid Company, Russian railways, state-controlled banks and various governmental bodies. Prices for electricity, electricity transmission and connection services are based on tariffs set by federal and regional tariff regulatory bodies. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation.

The Group's parent company produces publicly available financial statements.

Transactions with the Company's Parent, its subsidiaries and associates

Transactions with the Company's Parent, its subsidiaries and associate include transactions with IDGC Holding, its subsidiaries and associates, and were as follows:

Expenses

	Transaction value for the year ended 31 December		Outstanding balance		
	2012	**2011**	**31 December 2012**	**31 December 2011**	**31 December 2010**
Parent company					
Managing services	76,485	76,487	-	-	-
Other			4,513	-	5,310
Fellow subsidiaries					
Rent	11,127	-	-	-	-
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

	Transaction value for the year ended 31 December		Outstanding balance		
	2012	**2011**	**31 December 2012**	**31 December 2011**	**31 December 2010**
Parent company					
Fellow subsidiaries					
Rent	3	3	-	-	-
Other	-	-	271	5	1,886
	3	**3**	**271**	**5**	**1,886**

Capital transactions with the Company's Parent (IDGC Holding) are disclosed in Note 19.

Management remuneration

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

There are no transactions with key management personnel and close family members except their remuneration in the form of salary and bonuses which were as follows:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Board of Directors	**Other key Management Personnel**	**Board of Directors**	**Other key Management Personnel**
Salaries and bonuses	9,185	79,577	9,069	52,692

Transactions with government-related parties

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.

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

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

Significant loans and borrowings 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 the Extraordinary General Meeting of Shareholders of the Company approved an increase in share capital through an issuance of additional 214,877,270 ordinary shares with a par value of RUB 100 each under an open subscription. The approved offering price was RUB 121.82.