

Open joint stock company
“Interregional distribution grid Company of the South”

Appendix 1 to order of IDGC of the South JSC

No.902 dated 29 December 2014

Approved by order of Director General of IDGC of the South

No.902 dated 29 December 2014

Regulations

on accounting policy for accounting purposes

of IDGC of the South JSC, 2015

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1. GENERAL PROVISIONS

1.1 These Regulations on accounting policy for accounting purposes of IDGC of the South JSC (hereinafter – the Regulations) have been developed in accordance with requirements of accounting standard acts and also with regard of requirements of tax and legal legislation of the Russian Federation.

1.2 IDGC of the South JSC (hereinafter referred to as “Company”) arranges and keeps accounts, prepares accounting (financial) statements in accordance with the Federal law No.402-Φ3 dated 6 December 2011 “On Accounting”; Regulations on accounting and financial reporting procedure in the RF, approved by the order of the Ministry of Finance of the RF dated 29.07.1998 No. 34H; Chart of accounts of business accounting approved by the order of the Ministry of Finance No.94H dated 31.10.2000; Single corporate accounting principles under RAS of “Russian Grids” group of companies and other standard acts in the field of accounting.

1.3 These Regulations have been formed on the basis of assumptions of:

- separate entity of an enterprise;
- continuity of an enterprise operation;
- successive employing of accounting policy;
- temporal determination of economic activity factors.

1.4 All associated joint stock companies of IDGC of the South JSC shall keep separate accounts, prepare complete accounting reports and tax accounts, shall be taxpayers, bear responsibility for timely and complete settling with the budget in relation to all types of taxes, dues and fees.

1.5 These Regulations shall be applied to the Company, hereof branches and other separate structural subdivisions. These Regulations shall be the guide for:

heads and employees of all structural subdivisions of the Company – branches and operating developments, departments, services and sections of the Company’s Executive bodies, responsible for timely submission of basic documents and other accounting information to accounting services;

heads and employees of all departments, services and sections, responsible for timely and reasonable development, review and bringing of reference data to subdivisions-executives (including Accounting and Tax Department);

employees of Accounting and Tax Department of the Executive Bodies, branches, accounting departments of operating developments, responsible for timely and qualitative performance of all types of accounting activities and preparation of accurate accounting statements of all types.

1.6 Other order documents of the Company shall not contradict these Regulations.

2. ORGANIZATIONAL AND TECHNICAL ASPECTS OF ACCOUNTING POLICY

2.1 PRINCIPLES OF ACCOUNTING ORGANIZATION AND ACCOUNTING OBJECTIVES.

2.1.1 Accounting and tax records in the Company shall be performed by the structural subdivision –Department of financial records, accounts and tax returns led by the head of department – the Chief Accountant.

2.1.2 The Chief Accountant is subordinate directly to deputy director general in charge of economics and finances and is responsible for accounting policy determination, accounts keeping and timely accounts reporting. The requirements of the Chief Accountant in relation to documenting of business transactions and submission of necessary documents and data to the Department of financial records, accounts and tax returns shall be obligatory for all employees of the Company.

2.1.3 The structure of IDGC of the South JSC includes executive body, branches and production divisions subordinate to branches, distribution zones.

2.1.4 The segregation of branches, production divisions and distribution zones has been caused by territorial location and peculiarities of production process hereof. Branches, their production divisions and distribution zones shall not be regarded as legal entities, shall act on the basis of the Regulations, act on behalf of legal entity, and their heads shall act on by virtue of the power of attorney.

2.1.5 Branches, except “Rostovenergo” branch of IDGC of the South JSC, shall have own accounting services (Divisions of financial records, accounts and tax returns) headed by chief accountants of the branches, that ho shall prepare a separate balance sheet with incomplete financial result and other accounting statements according to forms established by the Company. Accounts and reports of “Rostovenergo” are prepared by Department of financial records, accounts and tax returns.

2.1.6 A branch shall prepare accounting and tax reports including the indicators on all subordinate production divisions (geographically situated within one constituent region of the Russian Federation with the branch).

2.1.7 Divisions of financial records, accounts and tax returns of “Volgogradenergo” branch include territorial subdivisions financial records, accounts and tax returns. Department of financial records, accounts and tax returns includes territorial divisions for accounting activity, that keeps accounts of business activity assets, revenues, expenses and other accounting objects of operating departments and distribution zones. For the purposes of accounting the belonging of operating department (distribution zone) of territorial division is defined in regulatory and administrative documents of the branch.

2.1.8 The functions of central accounting department shall be performed by the Department of financial records, accounts and tax returns of the Company’s Executive Bodies that shall prepare accounting statements concerning the Company including the indicators of all branches.

2.1.9 The composition and hierarchy, division of powers and responsibility, structure, functions and tasks of the Department of financial records, accounts and tax returns of the Company performing the functions related to primary accounting and information processing for further registration hereof in accounting shall be stipulated by the Regulations “Department of financial records, accounts and tax returns”.

2.1.10 The degree of responsibility for completeness and accuracy of accounting and tax records maintenance and also the completeness of authorities of branches`

chief accountants and chief (senior) accountants of operating developments shall be stipulated by the Regulations on the branches.

2.1.11 The head of the Company as well as directors of branches shall be responsible for accounting organization in the Company, compliance with the legislation in the course of business transactions effecting pursuant to Regulations on the branches.

2.1.12 By their functions Chief Accountants of the branches are subordinate to the Chief Accountant of the Company and from the position of organization they are to the heads of branches.

2.1.13 The Chief Accountant of the Company, Chief Accountants of the branches and chief (senior) accountants of operating developments shall be appointed to the post and dismissed by the order of the director general of the Company.

2.1.14 Branches shall be financed in accordance with the indicators approved by local legal acts of the Company.

2.2. STANDARD WORKING CHART OF ACCOUNTS, TECHNOLOGY OF ACCOUNTING INFORMATION PROCESSING, FORMS OF SOURCE ACCOUNTING DOCUMENTS AND RULES OF DOCUMENT CIRCULATION

2.2.1. The documents of the Company's accounting policy shall include these Regulations, the Regulations on accounting policy for taxation purposes, Regulations on accounting policy for IFRS, standard working chart of accounts of business accounting, the schedule (rules) of document circulation, the list of forms of source accounting documents, the main registers, document forms of internal accounting (financial) reports. The procedure of revenues and expenses generation in respect of controlled activities, the procedure of allocation of indirect, selling and administrative costs shall be approved by relevant order documents of the Company.

2.2.2. Working chart of accounts of the Company shall be a target one and shall be drawn up in accordance with the Chart of Accounts of business accounting approved by the order of the Ministry of Finance of the Russian Federation No.94H

dated October 31, 2000 in consideration of functionality of integrated configuration of software suite to be introduced, used for keeping the records of “IDGC of the South”, JSC.

2.2.3. Accounting of property, liabilities and business transactions of the Company shall be carried out on the basis of natural measures in money terms (in rubles and kopecks) by their detailed, continuous, documentary and interrelated representation using double-entry bookkeeping.

2.2.4. Processing of primary accounting documents is carried out with using means of computer technology. The Company uses software 1C: Enterprise 8.2.

2.2.5. Registers of the Company shall be prepared in format maintained by the software on the basis of which bookkeeping is carried out in the Company.

2.2.6. Bookkeeping records shall be made on the basis of source documents recording the fact of business transactions performance and also on the basis of calculations (certificates, sheets) of the Department of financial records, accounts and tax returns.

2.2.7. Primary accounting documents are accepted for registration if they meet the following conditions:

- they contain all the required details in accordance with paragraph 2 of Article 9 of the Federal Law "On Accounting" No.402-FZ dated 06.12.2011;

- they are approved by Company's order and/or approved as an annex to the contract with a contractor.

2.2.8. The source accounting documents submitted to the Department of financial records, accounts and tax returns shall be checked in relation to form (completeness and correctness of drawing up the documents, filling in the details), content (validity of documented transactions, logical concurrence of separate indices), the control over the authorization of persons who have signed them shall be exercised.

2.2.9. Heads of branches, distribution zones and production divisions shall be entitled to sign the basic accounting documents on the basis of the power of attorney given by the Company, or on the basis of Company's order documents,

shall have authority to sign internal documentation of the Company if it results from the performance of their official duties.

2.2.10. Source accounting documents drawn up with the use of foreign languages shall have line-by-line translation into the Russian language.

2.2.11 The flow of basic documents in the Company (drawing up or receipt from other enterprises, institutions or organizations, the flow between structural subdivisions of the Company, including for business and tax purposes, processing, transfer to the archives) shall be regulated by the Regulations on the Department of financial records, accounts and tax returns and by a schedule of document circulation.

2.2.12. The Company shall keep the basic accounting documents, accounting certificate containing information on the corrections made in accounting and reporting, registers and tax ledgers, accounting and tax statements within the terms specified in internal organizational and order documents of the Company, rules for the organization of State archives, but no less than five years after reporting year.

2.2.13. The responsibility for organization of the custody of accounting documents and registers shall be imposed on the head of the Company.

2.2.14. In case of dissolution of the Company, all documents on company's staff (orders, personnel record card, ledger account cards for salaries, payment and settlement statements, etc.) are to be transferred to the archive at the location of the Company.

2.2.14 Administrative documents of the branch (executive office) are setting the list of persons entitled to sign accounting source documents, invoices and are fixing the schedule document flow at the branch.

2.3 PROCEDURE AND TERMS OF ACCOUNTING STATEMENTS PREPARATION

2.3.1 Accounting statements preparation shall be based on the data of registers. For the purpose of ensuring individual responsibility of employees of the Department of financial records, accounts and tax returns, the registers shall be monthly

unsealed and signed by the persons that prepared such reports. These persons shall be responsible for adequate recording of business transactions in storage registers.

2.3.2 Branches shall submit accounting and other financial statements concerning the internal forms of accounting to the executive bodies to produce reports on the Company in due time. The responsibility for completeness and adequacy of figures of a branch's reported statements shall be imposed on the head and chief accountant who sign the statement. Control over the correctness of accounting statement preparation shall be exercised by the Department of financial records, accounts and tax returns, by the Finance Department of the executive bodies.

2.3.3 Internal calculations shall not be presented in Company's reporting prepared for external persons.

2.3.4. The accounting (financial) report of the Company shall be drawn up for a month, a quarter and a year with accrual character from the beginning of reporting year, if the diverse procedure is not stipulated by the RF legislation, in the amount and pursuant to forms specified in the Regulations of "Russian Grids" JSC on procedure of preparing reports under Russian accounting standards. The Company's accounts shall be signed by the head and the chief accountant. Monthly and quarterly accounting (financial) report shall be regarded as interim statements.

2.3.5. The accounting (financial) report of the Company intended for external persons shall be drawn up in thousands of rubles without decimal digits.

2.3. 6 The accounts shall include:

- Balance Sheet ;
- Profit and Loss Statements;
- Statements of Changes in Equity;
- Cash Flow Statements;
- Explanations to Balance Sheet and Profit and Loss Statements (as a text and as a table);
- Auditor's Report;

2.3.7. Explanations to Balance Sheet and Profit and Loss Statements shall disclose information, which has exerted substantial influence on the results of financial and

business activity of the Company, useful for a wide circle of persons concerned. The part of general items that amounts to 5% or more shall be recognized as the materiality guideline when estimating the accounts figures to draw up the accounts and disclose the information.

2.3.8 Annual accounting (financial) report shall be submitted in full volume by the Company, as for interim statements the Balance Sheet and the Profit and Loss Account shall be submitted.

2.3.9. Annual accounting (financial) report of the Company shall be examined and approved by the decision of the annual General meeting of shareholders of the Company.

2.3.10 Annual accounting (financial) report of the Company shall be published according to procedure described by the federal laws.

2.3.11 Decision adopted by the annual meeting of shareholders of the Company about the distribution of earnings of the reporting year shall be recorded in the accounts in the period when the meeting was held, i.e. in the year following the reporting one.

2.3.12. The Company prepares consolidated financial statements in accordance with IFRS.

2.4 PROCEDURE FOR TAKING INVENTORY OF PROPERTY AND OBLIGATIONS

2.4.1 Inventory of property and obligations shall be carried out by the Company in accordance with article 11 of the Federal law No.402 dated 06.12.2011 “On Accounting” and Methodological instructions on taking inventory of property and liabilities approved by the order of the RF Ministry of Finance No.49 dd 13.06.1995 for the purpose of ensuring the adequacy of accounting and reporting data.

2.4.2 All types of assets and obligations of the Company, including the property (irrespective of location), possessed by the Company pursuant to the right of property, amounts of work in progress, investments in progress in current and non-current assets, accounts payable and asset items, property that is not owned by the

Company but recorded in books on off-balance accounts (being on responsible storage, obtained for selling by contract of commission agency, rented etc.).

2.4.3 The procedure for taking inventories (number of inventories in the reporting year, dates of taking hereof, list of property and obligations subject to check during each of them) shall be stipulated by orders of the Company.

2.4.4 To make an allowance for doubtful accounts, the Company carries out quarterly the inventory of receivables.

2.4.5. Inventory of fixed assets shall be carried out annually by the Company, library stocks – once in 5 years.

2.4.6 For the purpose of taking inventory working inventory commissions shall be set up, the composition of which shall be approved by the Company's Order, and for the branches "Astrakhanenergo", "Volgogradenergo" and "Kalmenergo" – by the order of the Company's branch.

2.4.7 The discrepancy between the factual presence of property and accounting data revealed in the course of taking inventory shall be recorded in the accounts of the reporting period to which the date of inventory refers.

2.4.8. The results of property and obligations inventory (minutes of meetings of branches` central inventory commissions) shall be submitted by the branches to the Company's executive bodies for consideration of the Central Inventory Commission of the Company. The Central Inventory Commission of the Company shall be set up by the order of the General Director of the Company.

3. METHODOLOGICAL ASPECTES OF ACCOUNTING POLICY

3.1. PROCEDURE FOR ACCOUNTING POLICY DETERMINATION, APPROVAL AND CHANGE

3.1.1 Means of bookkeeping chosen in the course of the present accounting policy determination shall be applied from the first of January of the year following the year when the document was approved. When forming the Company's accounting policy on a specific issue and accounting method shall be selected one of several methods and techniques allowed by the Single Corporate Accounting Policy. If this issue is not specified in the Single Corporate Accounting Policy, one of several

ways, permitted by Russian legislation and/or regulations in the field of accounting shall be applied. In case if the Single Corporate Accounting Policy does not cover of the issue, then during the formation of accounting policy of the Company an appropriate method shall be, on the basis of other accounting regulations and International Financial Reporting Standards.

3.1.2 Any changes in accounting policy shall be approved by organizational-order documentation of the Company.

3.1.3 The changes shall be disclosed by the Company in an explanatory note attached to accounting statements and financial report for the year proceeding the year when they were made.

3.1.4 In case of revealing in Company's economic activity of new facts of economic activity for which the means of accounting have not been determined by the accounting policy, addition to the accounting policy shall be made up.

3.2 CHANGES IN ACCOUNTING ESTIMATES

Change in the estimated value is the adjustment of value of the asset (liability), or a value reflecting the repayment of the value of the asset due to new information, which is made based on an assessment of the existing situation in the Company, expected future benefits and obligations and is not the correction of errors in the financial statements.

3.2.1 Accounting estimate:

amount of valuation reserves;

amount of reserves for doubtful debts;

amount of inventory reserve;

amount of investment depreciation reserve;

amount of estimated liabilities in accordance with Accounting Regulations 8/2010;

depreciation;

useful life of depreciable assets;

time limits and procedure for write-off of unexpired costs;

estimation of expected future economic benefits from the use of depreciable

assets;
deferred tax assets and liabilities;
other estimates and assumptions
list of estimated values is open.

3.2.2 Changes in the estimates (except for changes that directly affect the value of capital of the Company) shall be recognized in the accounting records by their inclusion in incomes or expenses of the Company (prospectively). Changes in the estimated value that directly affects the amount of capital of the Company shall be recognized by adjusting the relevant articles of the capital in the financial statements in the period in which the change occurred.

3.3 MISTAKES CORRECTION

3.3.1 Mistake made while keeping the accounting records and preparation of the accounting report of the Company should be corrected in accordance with the Regulation on accounting 22/2020 “Corrections in accounting keeping and reporting”.

Corrections to the accounting balance should be specified in memorandum on corrections entry (form MPIO-26), if necessary the source documents or proving calculations could be attached.

The Company uses the following methods to correct the mistakes, depending on the type of a mistake: method of supplementary entry; method of offsetting entry.

3.3.2 The material misstatement is the error that wrenches the calculations and data for more than 10% and changing the data in Profit and loss statement “Revenue (loss) from core activity” for more than 2%.

Any misstatements in items of accounting balance “Authorized capital” and “Reserved funds” are considered as material.

3.4 EVENTS AFTER THE REPORTING DATE

3.4.1 In accordance with Accounting Regulations 7/98 “Events After the Reporting Date” the Company shall record in the accounting statements the events after the reporting date which had or can have influence on the financial condition, cash

flow or on the results of Company's functioning and which took place in the period between the reporting date and the date of signing the accounts of a reporting year.

3.4.2 Events after the reporting date shall be recorded in accounting statements by means of ascertainment of data on corresponding assets, liabilities, capital, receipts and expenditures of the Company and the corresponding information shall be disclosed in the explanatory note to balance sheet and financial statements.

3.4.3 To evaluate in money terms the consequences of an event after the reporting date the corresponding computation shall be carried out and the evidence of such computation shall be ensured. The calculation shall be executed by a structural subdivision (department, service, section) to which, in accordance with the functions performed, this event refers.

3.5 PROVISION OF INFORMATION ON RELATED PARTIES

3.25.1 In accordance with Accounting Regulations 11/2008 "Information on Related Parties", requirements of EKUP of Rosseti Group, the Company shall include information on related parties as a separate section in the explanatory note which is a part of accounting statements. In this case the specified data shall not be taken into account when preparing the accounts for internal purposes as well as accounts drawn up for the state statistical observation and for a credit agency or for other special purposes.

3.5.2 The list of related parties the information on which is disclosed in the accounting statements shall be determined by the Company on an independent basis proceeding from the substance of relations between the Company and a related party in consideration of the substance over form requirement.

3.6 DISCLOSURE OF INFORMATION ON SEGMENTS

3.6.1 The Company carried out allocation of reportable segments in accordance with Accounting Standards 12/2010. Information on geographical segments shall be recognized as source information for the purposes of generation of data on reportable segments since Company's main risks and profits depend on the activity differences in different geographical regions. As secondary one – information on operational segments.

3.6.2 When changing in the reporting period the structure of the reportable segments, comparative information for periods prior to the reporting period, are recalculated according to the new structure of the reportable segments, except in cases where such information is not provided, and such conversion contradicts the requirement of rationality. Comparative information for each reportable segment is subject to restatement. Cases of conversion (the impossibility of conversion) should be disclosed as part of the reported segment information.

3.7 DISCLOSURE OF INFORMATION ON DISCONTINUED OPERATION

3.7.1 The procedure for disclosure of information on discontinued operation including the information produced in consequence of Company's reorganization shall be carried out in accounting statements in accordance with RA 16/02 "Information on Discontinued Operation", approved by the order of the RF Ministry of Finance No.66H dated 02.07.2002.

3.8 GENERAL APPROACHES TO CLASSIFICATION OF ACCOUNTING ENTITIES

3.8.1 Company's assets are divided into the owned assets and costs (non-complete investments in the production of assets).

3.8.2 Costs are divided into capital (non-current) and current (circulating) costs.

3.8.3 The Company recognizes those costs as capital costs which aim at the production of non-current assets, including the costs on the purchase of new entities, development, expansion, reconstruction, modernization and technical retooling. All other costs shall be recognized by the Company as current costs.

3.8.4 The cost estimate of used recourses – costs – shall be preliminarily calculated on calculation accounts:

- the costs on output of products, works, services (current) – account 20, 25;
- the costs of auxiliary production facilities – account 23;
- general economic costs – account 26;
- the costs of service production facilities and sectors – account 29;

- the costs on purchase (formation) of non-current assets (capital investments) - account 08.

3.8.5 In the accounts recording the purchased current assets cost-accounting shall be carried out in relation to nomenclature numbers, lots, homogeneous groups of inventories.

3.8.6 At the termination of the cost accrual period the Company states that the costs has led to production of assets if the item of property has been formed, the usage or retirement of which is to provide a future economic benefit. Only the items of property owned on the basis of the right of ownership (assumption of separate entity) shall be recognized as assets by the Company.

3.8.7 To take an item of property on discount, hereof value shall be measured with sufficient degree of reliability. The Company recognizes the valuation reliable enough when the item of property is ready to be used according to the planned targets, and all the costs related to bringing hereof in this condition are accepted in the accounting statement and are evaluated on the basis of accounting documents, contractual or market quotations and tariffs.

3.8.8 If the cost performance has not led to asset formation, at the termination of the cost accrual period the Company shall recognize the costs.

3.9 GENERAL APPROACHES TO VALUATION OF ACCOUNTING ENTITIES

3.9.1 For the purpose of taking the property and obligations into accounting records, the Company shall carry out the valuation in money terms. The valuation of property shall be performed as follows:

- property, purchased for payment shall be evaluated according to the sum of actually incurred charges on hereof acquisition;
- property produced by the subdivisions of the Company shall be evaluated according to the manufacturing costs (actual costs connected with the production of property item);
- tangibles left after the write-off of fixed assets that are impossible to be restored or be used at a later date, spare parts coming out of restoring (reconstruction,

modernization, repairing) of the fixed assets shall be evaluated according to current market value on the date of fixed assets write-off or on the date of taking the spare parts on discount;

- property received without return or property revealed in the course of inventory of assets and obligations shall be evaluated according to current market value on the date of taking the property on discount.

Current market value shall be regarded as the sum of cash assets which can be received as a result of purchase of specified asset on the date of hereof including for accounting purposes.

3.9.2 Current market value shall be calculated in consideration of prices established for this or similar type of property. At the same time the data on the established price shall be documented or confirmed by the expert`s report. The report of an independent expert or an authorized specialist (specialists) of the Company possessing special knowledge and skills shall be understood as the expert`s report. These specialists shall be appointed by the order of the head of the Company or by persons authorized by the head as the members of the permanently operating commission that deals with including for accounting purposes or writing-off the property.

3.9.3 The property received by the Company under the contract prescribing the fulfillment of obligations (payment) carried out by non-monetary assets (exchange contract in particular), shall be estimated according to the cost of values transferred or subject to transfer by the Company. The cost of values transferred or subject to transfer by the Company shall be calculated in consideration of the price according to which the Company usually calculates the cost of similar values under comparable circumstances.

3.9.4 In the course of estimation of property acquired by any reason, the actual cost hereof shall be calculated with the addition of costs incurred by the Company in relation to bringing the property in condition suitable for usage. State registration expenses of purchased property items and transportation facilities shall be included in the actual cost of property item if they have been carried out prior to the moment

of taking the item on discount as a fixed asset, they shall be regarded by the Company as miscellaneous expenses of the current term.

3.9.5 Fixed assets evaluation the cost of which when purchased has been expressed in foreign currency shall be carried out in rubles by means of conversion of sums in foreign currency at the Central Bank of Russia rate on the date of including the item for accounting purposes as investments in non-current assets.

3.9.6 The value of property, in which they are included for accounting purposes, shall be no subject to alternation with the exception of cases stipulated by the Russian Federation legislation.

It is allowed for non-current assets (except for intangible assets) in case of completion, providing with additional equipment, reconstruction, modernization, partial liquidation and revaluation of items of fixed assets.

It is allowed for current assets in the event that inventories are outdated, have lost completely or partially their initial quality.

The adjustment of net assets value to market value shall be made for financial investments on the basis of which it is possible to determine current market value pursuant to the established procedure.

3.9.7 If the documents representing the cost of received items are not available by the moment of property receipt (fixed assets, inventories etc.) they shall be taken on discount in a conditional judgment in consideration of agreed cost, delivery expenses determined according to the data of motor waybills and railway bills of lading and other transport documents.

4 PECULIARITIES OF ACCOUNTING AND REPORTING OF PARTICULAR ASSETS, LIABILITIES, INCOME, EXPENSES

4.1 INVESTMENTS IN NON-CURRENT ASSETS (INCLUDING CAPITAL CONSTRUCTION)

4.1.1 Capital costs are connected with:

- capital construction carried out in the form of development as well as reconstruction, expansion and technical retooling (hereinafter referred to as construction);

- acquisition of buildings, developments, equipment, transport facilities and other separate items (or the parts) of fixed assets;
- acquisition of plots of land and facilities of nature management;
- acquisition and formation of assets having non-physical nature;

4.1.2 The accounting unit of investment in fixed assets is:

by investments related to the construction and acquisition of fixed assets - each constructed and acquired object of fixed assets;

by investments related to the establishment (purchase) of intangible assets - each created (acquired) object;

by investments related to the implementation of research, development and engineering works - the theme of the work in general or individual stages of work, the results of which are independently used in the production of goods (works, services) or for administrative needs of the Company.

ENGAGEMENT OF EXTERNAL CONTRACTORS IN CAPITAL CONSTRUCTION AND IN-HOUSE CAPITAL CONSTRUCTION.

4.1.3 In the course of reflecting an item of immovable property in the accounting records as an item of fixed assets the sum of actual expenses on the formation hereof recorded as capital investments in this item shall determine the initial value of a fixed assets item for:

- the items of immovable property purchased from previous owners by the sale contract, exchange contract, lease contract and others, – upon the registration of ownership to the item transfer at the body for the state registration of real estate activities;
- the items of immovable property constructed by the Company and the subdivisions hereof using non-contractual or contractual construction forms, - upon the submission of the package of documents necessary for ownership to the item registration;
- fixed assets included in the construction estimates (to be used in projects under construction), - upon setting the building project in operation;
- fixed assets that need assembly, - upon the assembly termination;

- fixed assets that do not need assembly, - upon the arrival of the item from the supplying subdivision into the exploiting subdivision. At the same time if the exploiting subdivision puts the received item in storage, it shall be recorded in accounting as the fixed assets item in stock (in reserve).

4.1.4 Recording of investments in non-current assets shall be kept regarding the construction in general, separate investment items, technological structure of costs on the building project.

4.1.5 Recording of costs connected with the building project shall be kept with accrual character from the item construction commencement on the data of reporting periods till the setting of items in operation or complete performance of corresponding works. The developer (client) of the construction shall maintain the records of costs in the account 08 "Investments in Non-Current Assets".

4.1.6 Capital investments made in the form of construction (reconstruction, modernization) of items carried out on non-contractual basis shall be recorded monthly in an accounting statement, as far as they have been formed. At the same time the subdivision (branch, operating development) that carries out capital investments, shall record them monthly on the account 08 "Investments in Non-Current Assets".

4.1.7 Modernization of fixed assets that do not require the installation is taken into account on a separated sub-account 08 "Capital investments in non-current assets".

4.1.8 Current expenses connected with maintenance of branches` subdivisions and operating developments, exercising supervision over the construction of items (hereinafter referred to as CCM), in contractual and non-contractual manner, shall be included monthly in the value of items being subject to capital investments in proportion to the amount of planned capital expenses related to this item in the reporting year according to the plan of investments (investment programme). In case the adjustment to the plan of investments has been made during the year, redistribution of costs of previous months shall not be carried out.

4.1.9 Distribution of current costs shall be carried out only between the open items of capital investments in new construction, expansion, reconstruction and modernization.

4.1.10 Item-by-item distribution in percentage terms shall be carried out monthly by a branch, shall be signed by the Deputy Director for capital construction of the branch (for Rostovenergo branch - by the head of department for capital construction) and be submitted to the accounting service of branch (for Rostovenergo branch - sector for accounting of fixed assets, capital investments in the Rostov region). Item-by-item distribution, in sum terms, of current costs of the CCM of a branch shall be carried out by the branch`s accounting service and after that shall be advised to the operating development (for Rostovenergo branch - sector for accounting of fixed assets, capital investments in the Rostov region).

4.1.11 The following shall be meant by the current costs specified in item 4.1.8: salary including all types of bonuses, emoluments, remunerations; salary UST; voluntary insurance and staff training costs; traveling expenses. The list of costs shall be exhaustive.

4.1.12 The costs of structural subdivisions of the executive office of the Company, exercising the functions of security and management of investment projects and construction are included in the cost of capital investment of subsidiaries. The distribution is carried out monthly, in proportion to the branch in terms of investments (investment program) of the Company in the reporting year. The distribution is carried out in the month following the month of accrual of current costs. In the last month, the distribution is carried out in November and December of the reporting year.

4.1.13 Costs on encumbrance of capital construction projects shall be included in the costs of construction projects. Along with it, the part of the total cost that can be associated with certain assets, fully allocated to these assets. The distribution of the remaining amount less direct distribution amounts for each asset in proportion to the cost of capital construction projects. Under the encumbrance of capital construction is meant the construction or financing of additional public facilities

and municipal infrastructure, as well as engineering networks for the needs of the state or municipal authorities that are in charge of land expropriated for the construction.

4.1.14 In case of necessity of termination or suspension of work for more than six months, the Company provides the preservation of capital construction. Expenses on conservation and maintenance of the inactive facility are not included in the price of the object under construction, and are recognized as other expenses in the period they are incurred. To obtain the suspension of construction the form KS-17 is used.

4.2 EQUIPMENT TO BE INSTALLED

4.2.1 Equipment that is brought into operation only after the assembly of the parts and attachment to the foundation or bearings, to the floor, to the inserted floors and other supporting structures of buildings and constructions and also sets of spare parts of this equipment shall be referred to installation equipment. This equipment shall include control instrumentation and other instruments intended for being mounted in the installed equipment.

4.2.2 Installation equipment shall be taken on discount in the account 07 according to the actual cost of acquisition which is made up of the cost at the acquisition prices and the expenses on acquisition and delivery of this equipment to the Company's storehouses. The account 15 "Preparation and Procurement of Material Values" and account "Deviation in value of tangible assets" shall not be used in case of equipment receipt. When transferring equipment for installation to a contractor, its cost is deducted from the credit side 07.02 "Equipment to install" to the debit account 08 "Investments into fixed assets" on the basis of the Certificate of equipment installation (form No.0015). Write-off of equipment for installation during its transfer to installation is carried out at the cost of the production of a piece of equipment.

4.3 RECORDING OF FIXED ASSETS

4.3.1 Recording of Company's fixed assets shall be maintained in accordance with the Accounting Regulations "Recording of Fixed Assets" (AR 6/01) approved by

the Order of the Ministry of Finance of Russia No.26H dated 30.03.2001 with the ensuing changes and additions.

4.3.2 The Company shall recognize as fixed assets the assets in connection of which the following conditions shall be satisfied at a time:

it is expected to use the output in the production, in the course of works performance or rendering the services or for administrative needs over a long period of time (useful life of more than 12 months duration or usual operating cycle if it exceeds 12 months);

the capacity to provide economic benefits (profit) at a later date, and also the on-selling of these assets is not planned by the organization hereafter.

4.3.3 If in the moment of asset quality rating, the decision about hereof retirement for benefit of other persons has been taken – on-selling, exchange etc., the item shall be qualified as a commodity.

4.3.5 Legal and technical literature, books, brochures and similar printings are accounted for as inventories.

4.3.6 By degree of usage the Company divides the kept in reserve fixed assets on:

fixed assets in reserve meant for uninterrupted technological process, its stability in case of emergencies and resources for the cases when the main equipment is out of order;

fixed assets that do not require assembly, purchased in reserve for future operation.

4.3.7 An inventory item shall be regarded as an accounting unit of fixed assets. An inventory item of fixed assets shall be understood as an item with all attachments and accessories or a structurally separate item meant for the performance of certain functions of its own. For the purpose of accession record of fixed assets the ledger card (FA-6) shall be used. Records in ledger cards shall be kept in electronic form and be printed out on paper as of the date of taking the item on discount. The data of the current, capital repairs, reconstruction, modernization are introduced to the application №1 to the inventory card of accounting of property, plant and equipment (Fixed Assets -6) pursuant to an Act of Acceptance of repaired,

reconstructed, modernized facilities of fixed assets (Fixed Assets -3).

4.3.8 Inventory numbers given to the items of Company's fixed assets shall consist of 12 signs and have the following structure: the first four signs shall be the prefix of inventory number and determine the original location (place of giving) the inventory number to an item of fixed assets. The next following 9 signs represent the serial number in a group. The given inventory number shall be unique inside the Company and shall not be changed in case of transfer between the branches (branches` operating developments).

4.3.9 With the aim of keeping up the uniqueness of inventory numbers inside the Company it is not allowed to give one inventory number to a group of similar fixed assets items, even if they have been acquired from one supplier in the scope of one delivery.

4.3.10 If one or several objects used for the same or different purposes represent a separate complex of contractually linked objects having common implements and accessories, general management, assembled on the same foundation and as a result each object can perform the functions only being the part of the complex, the whole complex as a single entity shall be taken on discount as an inventory item.

4.3.11 In the event that one inventory item has several parts having substantially different useful life period, each such part shall be recorded as an independent inventory item irrespective of the fact whether the specified part of the item can or cannot fulfill an independent function.

4.3.12 The following shall be accepted as independent inventory items:

- capital investments in rented items of fixed assets;
- capital investments intended for radical improvement of lands (drainage, irrigation and other reclamation works);
- shares of fixed assets items, being in shared ownership of the Company and other owners.
- for power lines: land plot near the transmission towers, overhead power lines, cable lines;
- overhead lines and cable lines on different types of pylons;

- for substations: substation building; transformers; equipment.

Requirements for the formation of fixed assets, standard (unified) names inventories of the fixed assets initially recognized and standard classification of production complexes are established by the Regulations “On the procedure for allocating assets to fixed assets of IDGC of the South”, developed by the Company.

4.3.13 Fixed assets shall be included for accounting purposes in consideration of original cost determined depending on the way of receipt – acquisition for payment, in-house asset formation (construction), free of charge receipt etc.

4.3.14 Concerning the fixed assets purchased from leasing, their initial cost is formed from the sum of all payments on leasing contract (total cost of leasing payments and redemption value). The sum leasing payments taken into account during the validity of leasing contract is recorded on debit 01 and credit 02.

4.3.15 Real estate, property rights, which are not registered in the manner prescribed by law, are accepted for accounting as fixed assets with segregation in the analytical accounting.

4.3.16 For gratuitously received items as well as for fixed assets acquired with attraction of funds from target financing, at the moment of their inclusion for accounting purposes the entries of the record account of investments in non-current assets (account 08 “Investments in non-current assets”) shall be made and other revenues (account 91 “Other revenues and expenses”) shall be recognized.

4.3.17 The transfer of fixed assets items between the branches of the Company and between the operating developments inside the branch of the Company shall be recorded in subaccounts of account 79 “In-House Settlements”. In this case accounting entries representing the replacement cost of fixed assets and the sum of cumulative amortization shall be made.

4.3.18 The expenses related to internal transfer of fixed assets items between the subdivisions of the Company shall not be included in the original cost but shall be reckoned towards current costs

4.3.19 The notice (aviso), the statement of transfer and acceptance of fixed assets between the branches (MPIO-9), the plan-record card (form Fixed Assets-6) is considered to be the ground for taking the fixed assets received from branches (operating developments) on discount.

4.3.20 Fixed assets items taken for materially responsible storage shall be recorded in the off-balance account 002 "Inventory Holdings Taken for Responsible Storage" at prices specified in the acceptance statement.

4.3.21 If the Company takes decision to discontinue completely the operation of separate items of basic funds, the accounting statement shall reflect proceeding from the situation:

laying-up of specified items – in this case the items shall be separated in analytical accounting;

write-off of items that are not used permanently (functional and/or physical depreciation) - in this case the Company shall recognize sundry expenses.

4.3.22 The costs related to the fulfillment of all types of repairs of fixed assets (current and capital) shall be included in the expenses on ordinary types of activities in the period in which repair works (stages of repair works) have been completed and accepted. Provision for basic funds repairing or repair fund shall not be made.

4.3.23 Revaluation of fixed assets is not carried out.

CHANGES IN FIXED ASSETS VALUE

4.3.24 In case of partial liquidation of fixed assets items the amortization accumulated on them shall be written off in the same ratio.

4.3.25 The acceptance of fixed assets after reconstruction and modernization shall be formalized by the statement of acceptance of reconstructed and modernized items (form Fixed Assets -3) on the basis of act of provided repair works (note of cost of performed work KC-2), on the basis of which the certificate of the cost of performed works and other expenses (note of cost of performed work KC-3). When performing the works related to reconstruction and modernization using own resources, form MPIO-25 shall be applied.

USEFUL LIFE OF FIXED ASSETS ITEMS

4.3.26 Useful life of fixed assets items shall be determined with consideration of expected physical depreciation, depending on operation conditions, natural conditions and corrosive medium influence, the system of carrying out repairs. Useful life of fixed assets items shall be determined within the limits stipulated by the decree of the Russian Federation Government No. 1 dated 01.01.2002, according to the list approved by the head of the Company or by a person authorized by him/her.

4.3.27 Useful life of fixed assets items shall be determined when taking them on discount on the basis of item certificate, other technical documents or on the basis of appraisal made by Company's technical services by a decision of permanently active commission. Useful life period shall be recorded in the inventory card (Fixed Assets-6).

4.3.28 Useful life of fixed assets items shall be reconsidered annually to make it accurate. In the event of a significant change in the length of the period during which the Company expects to use the asset, its useful life is subject to change. In case of improvement (increase) of primarily accepted standard indices of item functioning as a result of completion, providing with additional equipment, reconstruction or modernization. In this case the increase of useful life period is allowed to be carried out within the terms stipulated for amortization group in which this fixed asset has been included. The increase in the useful life of fixed assets may be carried out within the time limits set for the amortization group in which this basic means are included.

When changing useful life the new the depreciation rate is determined based on remaining useful life. When calculating the depreciation the new useful lives is applied to the residual value of the asset.

4.3.29 Useful life period of a modernized item shall be calculated as a difference between the re-determined useful life period of an item after the restoration and the operation life by the moment of modernization completion.

4.3.30 Useful life period of a fixed assets item previously used by some other organization shall be determined proceeding from the remaining service life period of fixed assets or any other supposed useful life period in the Company which shall be determined taking into account:

expected useful life period of the item being in operation in accordance with expected productivity and power;

expected physical depreciation depending on operation conditions; natural conditions of corrosive medium influence, system of carrying out repairs

legal and other restrictions in using the facility.

4.3.31 Expected useful life period of fixed assets on the basis of documentary confirmation of hereof importance shall be fixed by a commission and be approved by the head of the Company, a corresponding branch or an operating development of the branch in which the item will be in operation when taking the item on discount as fixed assets.

AMORTIZATION OF FIXED ASSETS

4.3.32 The Company shall use a straight-line method of accrual of fixed assets amortization. Amortization in connection with each inventory item shall be accrued monthly by means of appliance of established norms fixed depending on useful life period of the item.

4.3.33 The accrual of amortization of the property received by the Company under a lease contract and entered in hereof balance sheet shall be carried out using the method stipulated by the contract.

4.3.34 Monthly amount of amortized deductions shall be calculated according to the formula:

$$C_i = (DCost + C_m) / C^*$$

Where C_i – monthly amount of amortization,

$OCost$ - net value of fixed asset,

C_m – modernization costs,

C^* - remaining useful life period after the increase hereof.

This formula shall be applied in calculation of the amount of the modernized item amortization starting from the 1-st date of the month following the month when the works related to modernization are completed.

4.3.35 Utility (guard) dogs shall be referred to the third group of fixed assets in accordance with the Decree of the RF Government No. 1 dated 01.01.2002 “On Classification of Fixed Assets Included in Amortization Groups”.

4.3.36 In the process of amortization accrual on gratuitously received fixed assets as well as on fixed assets acquired with the attraction of funds of goal-oriented financing, simultaneously with the amortization write-off the part of deferred revenues of the same amount shall be regarded as other revenues of the Company.

4.3.37 Amortization shall not be accrued:

in relation to fixed assets items used for realization of the Russian Federation legislation concerning the preparedness activity and mobilization, which are not used in output production, in works performance and rendering of services, for administrative needs of an organization or for provision by an organization for a fee in temporary possession and use or in temporary use,

in relation to units of housing facilities acquired during the period from 01.01.2002 till 01.01.2006 (that do not make profit);

in relation to fixed assets items the consumer properties of which do not change in the course of time (plots of land; nature management facilities; objects related to museum pieces and museum collections etc.).

4.3.38 The accrual of amortization shall be suspended:

in relation to the fixed assets transferred for laying-up. The Company shall recognize the temporary discontinuance of item operation for the period of more than three months as laying-up. Expenses connected with laying-up of items (check-up, lubrication, booting, enclosing etc.) as well as concerning the temporary discontinuance of item operation for the period of less than three months shall be regarded as sundry expenses;

for the period of reconstruction and modernization, capital repairs of fixed assets items if the duration of works exceeds 12 months.

4.3.39 In relation to the abovementioned items the accrual of amortization shall be discontinued from the month following the month when they were transferred and shall start from the month following the month when these items were brought into operation.

4.3.40 Amortization of reserved fixed assets (meant for uninterrupted technological process in cases if the main equipment is out of order) is recorded in accounting

4.3.41 Amortization of fixed assets not requiring assembly, purchased in reserve for future operation is mentioned in expenditures on basic activities that do not reduce the taxable income.

4.4 RENT OF FIXED ASSETS

4.4.1 Leased fixed assets shall be recorded in the account 01 "Fixed Assets", but be separated in analytical accounting.

4.4.2 Fixed assets received for operation shall be recorded in the off-balance account 001 "Rented Fixed Assets" according to inventory numbers of the lessor. Fixed assets received on lease shall be recorded in the off-balance account 001 "Rented Fixed Assets" according to inventory numbers of the lessor.

4.4.3 Obligations related to carrying out of maintenance, capital repair of the property rented by the Company or let on lease to third-party organizations by the Company shall be stipulated by the terms of lease contract.

4.5 INTANGIBLE ASSETS

4.5.1 The recording of intangible assets of the Company shall be kept in accordance with the Regulations on accounting "Recording of Intangible Assets" (Accounting Regulations 14/2007) approved by the Order of the Ministry of Finance of the RF No.153H dated 27.12.2007.

4.5.2 An accounting unit of intangible assets is considered to be an inventory item. An inventory item of intangible assets shall be recognized as a collection of rights arising from a patent, certificate, contract on the forfeiture of the exclusive right to intellectual activity result or to the individualization means, or according to the diverse procedure stipulated by the law, intended for the performance of certain functions of their own.

4.5.3 An intangible asset shall be included for accounting purposes according to actual (original) cost determined as of the date of including hereof for accounting purposes.

4.5.4 The actual (original) cost of an intangible asset acquired by the contract specifying the execution of obligations (payment) by non-monetary funds, shall be determined on the basis of assets value, transferred or being subject to transfer by the Company. Assets value, transferred or being subject to transfer by the Company, shall be fixed proceeding from the price at which under comparable conditions the organization usually determines the value of similar assets.

4.5.5 When it is impossible to determine the value of assets, transferred or being subject to transfer by an organization according to such contracts, the value of intangible asset, received by the organization shall be fixed on the basis of the price at which under comparable conditions similar intangible assets are acquired.

4.5.6 The actual (original) cost of an intangible asset at which it has been included for accounting purposes shall not be changed.

4.5.7 The revaluation of intangible assets shall not be performed.

4.5.8 The useful life period of intangible assets shall be determined by the commission of experts and be approved by the head of the Company (or by a person specially authorized by him/her) when taking the item on discount proceeding from the following regulations:

regarding the rights granted on the basis of patents, certificates and other similar protection documents containing the information on their duration, or having the duration stipulated by the law – proceeding from the period specified in the document;

regarding the rights acquired on the basis of author`s contracts, assignment contracts and other similar contracts containing concrete terms for which intangible assets are purchased – proceeding from the terms stipulated by the contracts;

regarding other items of intangible assets – proceeding from the expected useful life period of the item during which the Company will derive economic profits from the usage of the assets;

items of intangible assets for which it is impossible to determine the useful life period shall be regarded as intangible assets with indeterminate useful life period;

useful life of business reputation shall be fixed at 20 years (but no more than the duration of an organization).

4.5.9 The Company annually within the framework of inventory shall check the useful life period of an intangible asset with a view to decide whether it needs being specified. In case of a substantial change in the duration of the period during which the Company intends to use the asset the useful life period hereof shall be subject to specification. When calculating the depreciation the new useful life is applied to the residual value of intangible assets.

4.5.10 As for the items of intangible assets that have indeterminate useful life period, the Company within the framework of inventory shall consider annually the presence of factors indicating the impossibility to determine accurately the useful life period of the item. In case the specified factors have ceased to exist the Company shall determine the useful life period of the intangible asset, hereof amortization method. All the adjustments made shall be reflected in accounting statements at the beginning of the reporting year as changes in estimated values.

4.5.11 The Company annually as of the end of the year, checks intangible assets for the presence of signs that indicate possible impairment. Impairment testing is carried out only in respect of intangible assets with indefinite useful lives. If the by the results of the impairment test, intangible assets are subject to depreciation, impairment losses of intangible assets are accounted as other expenses and are recognized on an individual sub-account “Provision for impairment of intangible assets” of account 04 “Intangible Assets”.

4.5.12 In case changes occurred in the facts and circumstances that indicated the presence of signs of impairment, the Company identifies the presence or absence

of evidence that an impairment loss, recognized in prior periods, no longer exists or may have decreased.

4.5.13 In case of presence of any indications that an impairment loss, recognized in prior periods, no longer exists or may have decreased, the Company restores the previously recognized impairment loss (by reducing previously accrued provision for impairment of intangible assets), and recognizes as other income.

4.5.14 Amortized deductions related to all types of intangible assets shall be made based on the straight-line method.

4.5.15 The Company annually within the framework of inventory shall check the method of amortization determination with the aim of deciding whether it needs being specified. If the calculation of expected receipt of future economic benefits from the usage of an intangible asset has been substantially changed, the method of amortization determination of such asset shall be subject to alternation. All the adjustments made shall be reflected in accounting statements at the beginning of the reporting year as changes in estimated values.

4.5.16 During the useful life period of intangible assets the accrual of amortized deductions shall not be suspended.

4.5.17 The amortized deductions related to intangible assets shall be recorded in accounting statements of the reporting year that they refer to and shall be accrued irrespective of the results of organization`s activities in the reporting period. The accrual of amortization shall be carried out monthly in a special account 05 "Amortization of Intangible Assets".

4.5.18 The value of an intangible asset which retires or is not capable to provide an organization with economic benefits at a later date shall be written off. The sum of cumulated amortized deductions on the intangible assets shall be written off simultaneously with the intangible value write off.

4.5.19 Revenues and expenses received from the intangible assets write-off shall be recorded in accounting in the reporting period that they refer to. Revenues and expenses received from the intangible assets write-off shall be referred to the financial results of an organization as other revenues and expenses.

4.5.20 Intangibles received in use shall be recorded by the Company in the off-balance account “ITA received in use” having the valuation determined proceeding from the amount of emolument specified in the contract. The Company regards nonexclusive rights to software usage granted on the basis of license agreements etc. as such assets.

4.6. SCIENTIFIC - RESEARCH, DEVELOPMENT AND ENGINEERING WORKS

4.6.1 Accounting of research and development, testing and technological works of the Company is carried out in accordance with the Regulations on accounting “Accounting of research, developmental and technological works” (PBU 17/02), approved by Order of the Ministry of Finance No.115H dated 19.11.2002, as amended.

4.6.2 Costs on performed R&D are qualified for accounting purposes as an expense on R&D if:

the Company was the customer under the R&D contract or produced works using its own the intention to apply the results in its activity work;

results of the work are not subject to legal protection in accordance with applicable law or are subject to legal protection, but the Company it was not intended to obtain the exclusive rights in accordance with legislation.

4.6.3. In the case in relation to the results of R&D it is planned to obtain exclusive rights, the costs on such R&D are accounted for as expenses for the creation of intangible assets.

4.6.4. In case of failure to comply with even one of the above-mentioned conditions, the costs on the implementation of R&D are recognized as expenses of the current period.

4.6.5. Property (prototypes, utility models, etc.) resulting from the implementation of R&D works which will be used in the manufacture of products (works, etc.) shall be qualified in the appropriate type of assets (fixed assets, inventories) in the case if the property meets the criteria for recognition of the related assets.

4.6.6 The unit of account of the costs on R&D works is an inventory item.

Inventory item is considered as the sum of the costs on the work performed, the results of which are independently used in the production of goods (works, services) or for administrative needs of the Company.

4.6.7 Accounting of expenses on implementation of R&D works on separate stages of work is carried out if in accordance with the terms of the agreement at each stage of works it is planned to produce results that can be used in the manufacture of own products (works, services) or for administrative needs of the Company (separate R&D).

4.6.8 If after implementation of several works there appear results, which can only be used in combination, then these results make a single inventory item .

4.6.9 R&D items, completed with a positive result, that are not subject to legal protection are accounted for on a separate sub-account (Results of R&D) to the account 04 “Intangible assets” in case of fulfillment of conditions of recognition (from the beginning, regardless of its actual use in production, for management purposes).

4.6.10 R&D items that are subject to legal protection, completed with a positive outcome are taken into account before obtaining a patent are recorded on a separate sub-account “Results of R&D” to account 04, after receiving a law enforcement document they are transferred to the sub-account of “intangible assets” of account 04.

4.6.11 The initial cost of R&D items is determined in the following order.

if it is planned to use the obtained results as the results of intellectual activity, then the cost of R&D items is determined in the full amount of the actual expenses on R&D works;

if along with the results of intellectual activity it is planned to use produced property (prototypes, utility models, etc.), - the cost of intellectual property (R&D items) is defined as the difference between the amount of actual costs for R&D works minus net amount of direct costs on production of item of property.

4.6.12 The expense on the patent are included in the initial price of the intangible assets if they are made prior to the date of putting the R&D item into operation.

4.6.13 The expenses on R&D arising after the production of R&D item are recognized as an expense in the current period. The exceptions are the costs in respect of which the following conditions are met:

the costs incurred will bring the Company future economic benefits beyond its originally defined;

costs are directly related to the item of R&D works.

Such costs may increase the initial cost of R&D item or item of intangible assets.

4.6.14 Write-off costs on R&D activities is carried out using the straight-line method. Write-off of R&D items in the prescribed manner, the results of which are used for production and management needs of the organization, at the cost of core activities are performed by depreciation with reflecting on account 05 “Depreciation of intangible assets”.

4.6.15 Period over which expenses on R&D are written off, which gave a positive result is determined for each project, based on the expected use of the results, in which the organization can receive economic benefits (income), but no more 5 years. The depreciable life of every project is approved by the head of the Company (branch). The depreciable life of every project is approved by the head of the Company (branch).

4.7 INVENTORIES

RECOGNITION OF ASSETS AS INVENTORIES AND THEIR VALUATION

4.7.1 The following assets shall be recognized as inventories:

Materials used for rendering the services of transfer and transit of electric power, technological support for the works performance (production of outputs aimed at selling) including special instrument, special implements, special equipment, working clothes;

intended for selling – goods; used for administrative needs of the Company; for use as raw materials, etc. the production of fixed assets for own use.

4.7.2 Assets that match the conditions of fixed assets recognition, within the established limit value per unit, are recognized in inventories.

4.7.3 Nomenclature number or affinity group (depending on the type of inventories) is considered to be an accounting unit of inventories.

4.7.4 The valuation of inventories for the purpose of taking them on discount shall depend on the reasons for receipt: acquisition for payment, in-house production, gratuitous receipt etc.

4.7.5 The sum of the Company's actual costs on acquisition, with the exception of value-added tax or other repaid taxes shall be regarded as the actual prime cost of materials acquired for payment.

4.7.6 The actual prime cost of materials acquired for payment shall include:

- the cost of materials according to contractual prices;
- non-refundable taxes paid in connection with the purchase of units of inventories
- expenses related to agency contracts concluded with the aim of carrying out the procedures of inventory purchase;
- transportation and procurement costs;
- expenses related to bringing the materials in such condition that they can be used to satisfy the Company's goals;
- other expenses directly related to the purchase of materials.

4.7.7 Inventories that do not belong to the Company by a possessory right, received hereby under the contract of commission agency, storage contract etc, shall be recorded off the balance in the account 002 "Inventory Holdings Received for Responsible Storage" according to the valuation stipulated by the corresponding contracts and transfer and acceptance documents (certificates, bills of lading etc.).

4.7.8 The purchased working clothes and working footwear irrespective of the cost and lifetime shall be recorded by the Company as part of assets being in circulation.

4.7.9 The cost of working clothes having service life of more than 12 months shall be repaid with the use of the straight-line method taking into account the useful life

period defined in conformity with the standards. Writing off shall be carried out starting with the month when working clothes were brought into operation.

4.7.10 The cost of working clothes the service life of which does not exceed 12 months according to the allocation norm shall be written off at a time at the moment of bringing into operation (operation start).

4.7.11 Accounting of special equipment is carried out similar to the recording of special clothes and special shoes.

4.7.12 The cost of equipment and maintenance accessories is subject to nonrecurring write-off at the moment of transmission (release) to operation. In order to ensure the safety of property the off-balance sheet accounting is organized.

4.7.13 The cost of seasonal bus-bar subject to write-off at the moment of transferring it into operation. For safekeeping of property the off-balance recording should be provided.

RECORDING OF INVENTORY RECEIPT

4.7.14 Expenses directly connected with the process of provision and delivery of materials in the Company shall be recognized as ordering costs. The ordering costs shall include:

- expenses related to loading of materials in a transport facility and their transportation subject to payment made by the buyer above the price of these materials according to the contract;
- materials storage fee paid in places where they have been purchased, at the railway stations, ports, wharfs;
- business traveling expenses connected with the provision of materials;
- other expenses.

4.7.15 Materials shall be taken on discount (be recorded) in the account 10 "Materials" at the actual prime cost of their acquisition (provision).

4.7.16 The stock of materials received by the Company that are not supported by accounting documents are considered to be non-invoiced deliveries. Non-invoiced deliveries shall be recorded as received and entered in analytical and synthetic accounting at the accounting prices. These transactions are segregated in the

analytical accounting by marking it as “non-invoiced deliveries”.” At receipt of settlement documents on such shipments for the current month, the arrival of inventories is made in the normal manner, with the admission of settlement documents in the next month, in the analytical accounting operations is reversed event of unbilled deliveries and inventories are recorded operations is in the normal manner.

4.7.17 Inventories received as unbilled delivery, in relation of which there is uncertainty if inventories belong to the Company (provider, content delivery are not specified, etc.) prior to their identification are recorded in inventories as a custodian. Such inventories are stored in warehouses separately and cannot be spent until the results are obtained

4.7.18 Contractual prices shall be used as accounting ones.

4.7.19 Expenses related to internal transfer of inventories (between the subdivisions of the Company or storehouses hereof) shall not be included in the cost of purchased stocks of materials and capital equipment but shall be referred to the prime cost of services, works or outputs.

RECORDING OF INVENTORY RETIREMENT

4.7.20 Inventories written off to production, sold to outside parties, retiring because of some other grounds, shall be evaluated at the average prime cost of each stock category of an operating development.

4.7.21 The average evaluation of actual prime cost of materials shall be carried out by defining the actual prime cost of the material at the moment of hereof issue (rolling valuation).

4.7.22 The procedure of materials allocation from the stock of a branch (operating department, distribution zone) to the stations, teams, workplaces shall be stipulated by the Head of the material procurement subdivision of the branch (operating development) by agreement with the Chief Accountant of the branch.

4.7.23 In basic accounting documents for material allocation from the stock of a branch (operating development) to the stations, teams, workplaces the following information shall be stated:

- name of material;
- amount;
- price as of the date of allocation;
- sum

number (code) and/or the name of expenditure and / or number (code) and / or the expenditure heading.

4.7.24 In respect of the actually used materials a subdivision – recipient of materials – shall draw up a Statement of expended material values write-off in which the name, number, price and sum in relation to each item, name of types of works (technical service, repairs, balancing and commissioning works etc.) for the performance of which the materials are allocated, and the code (reference number) of the item of costs, the amount and sum according to the consumption norms and actually the amount and sum of the expense above the norms and the reasons shall be specified (Form of report No. MPIO-3). The expended stationery and expandable materials write-off shall be carried out on demand – by a bill of lading (f. No.M-11).

4.7.25 Materials write-off carried out in relation to the corresponding subdivision of an organization and referring of their cost to the manufacturing expenses (depending on the purposes the materials have been expended for) shall be carried out on the basis of the afore-specified Report.

**RECORDING OF INVENTORIES (INCLUDING THE SPARE PARTS)
RECORDED AS RECEIVED AS A RESULT OF RETIREMENT FROM
FIXED ASSETS UNDER RESTORATION (RECONSTRUCTION,
MODERNIZATION, REPAIRS)**

4.7.26 Inventories (including the spare parts) recorded as received as a result of retirement from fixed assets under restoration shall be regarded as other revenues and be evaluated at the book value of similar spare parts being the latest according to the time of purchase taking into account the percent of actual depreciation of credited items (no less than the cost of scrap metal) in case of lack of this information on current market value.

4.7.27 Inventories (including the spare parts) recorded as received as a result of retirement from fixed assets under restoration shall be recorded separately from new spare parts as individual nomenclature numbers.

4.7.28 When the spare parts, recorded as received as a result of retirement from fixed assets under restoration, need the repair the following order of keeping accounting records shall be observed. When repairing the spare parts they shall be written off credit accounts of stock-taking (account 10 "Materials") to debit accounts 23 "Auxiliary production". All costs related to repairing of specified spare parts shall be written off debit accounts of repair cost accounting. At repair termination the restored spare parts shall be written off a credit account 23 to a debit account of stock-taking (account 10 "Materials") at the cost that includes repair expenses.

4.7.29 Inventories (including the spare parts) which are left after retirement of fixed assets or any other retirement shall be evaluated proceeding from the current market value at the date of including for accounting purposes. The current market value shall be understood as the sum of cash assets that can be received as a result of selling the specified assets.

DISCLOSURE OF INFORMATION IN THE REPORT

4.7.30 Inventories used as raw materials, etc. during the production of fixed assets for own use are recognized in the balance sheet as non-current assets. If at the time of purchase of inventories and till the time of use their appointment is not known, their value is recognized in the balance sheet under the general procedure established for inventories.

4.8 GOODS

4.8.1 When carrying out the commercial activities the expenses related to manufacturing and delivery of products from the storehouses (depot) made prior to the moment of putting them on the market shall be included in sale expenses.

4.8.2 Goods acquired for selling shall be evaluated at their purchase cost.

4.8.3 When carrying out retail trade inventory accounting shall be kept in consideration of sale price with the usage of account 42 "Trade Margin".

4.9 PREPAID EXPENSES (DEFERRED COSTS)

4.9.1 Prepaid expenses (deferred costs) are expenses incurred in the current period, from which the Company expects to benefit in the future. The prepaid expenses include the costs incurred by the Company in the reporting period, meeting the criteria for recognition of an asset, precisely:

the availability of resources controlled by the Company, resulting from past events;

high probability of the future economic benefits of the Company;

a reliable estimate of the value of the resource.

4.9.2 Prepaid expenses include expenses directly named in the current standards of RAS:

expenses incurred in connection with the upcoming work on the building contract (article 16 Accounting Standards 2/2008);

payments for the right to use the results of intellectual activity or identifications, made in the form of a fixed single payment

expenditures on the development and implementation of software (if these costs are not recognized as intangible assets).

4.9.3 The following is not considered as a part of prepaid expenses:

expenditure on the acquisition of licenses for implementation of licensed activities;

expenses on the extension of validity of titles of protection (patent for utility model, design patent, a certificate for rights to a trademark, service mark, origin mark of goods and firm name);

overhaul expenses;

the costs of compulsory and voluntary personal and property insurance;

the costs of certification of products (works, services);

additional costs on borrowings;

costs related to the sale (purchase) of property, etc.

4.9.4 Prepaid expenses are classified by type of assets to which the costs are carried out and the deadline for receipt of economic benefits:

short-term - for 12 months or less;

long-term - 12 months.

4.9.5 The period of write-off of deferred expenses shall be approved by the director on the basis of an act of recognition of deferred expenses (form No. MPIO -2) prepared by the services and departments of the executive office and branches of the Company, or other documentary evidence. The period specified in the contract or document shall be regarded as a documented evidence of the period of writing off the value of the prepaid expenses. Prepaid expenses are written off monthly, in regular intervals during the period to which they relate. The calculation of the monthly write-off of the expenses is performed in days.

4.9.6 The Company annually as part of the inventory checks objects of prepaid expenses for the presence of the future economic benefits. By the results of the audit it may be decided to write off the objects of prepaid expenses from the register, way of write-offs and write-off period will be specified.

4.10 SETTLEMENTS WITH DEBTORS AND CREDITORS

4.10.1 Accounts receivable and accounts payable are classified as short-term if the settlements should be settled within 12 months after the balance sheet date, otherwise they are classified as long-term.

4.10.2 When granting a commercial credit in the form of payment by installments with interest for use of funds (including through registration of bills at a discount), receivables and payables in the part of the interest receivable/payable are recorded as of the end of the reporting period separately of the principal amount of debt.

PAYMENTS TO SUPPLIERS AND CONTRACTORS

4.10.3 Payments to suppliers and contractors include:

accounts payable to suppliers and contractors, including the issuance of promissory notes;

advances and prepayments to suppliers and customers.

4.10.4 Accounts payable with issued promissory note are reflected separately.

4.10.5 Accounting unit of settlements with suppliers and contractors calculations with suppliers and contractors is accounts payable (receivable) to each supplier

(contractor), every contract, every document against payment.

4.10.6 The amount payable is determined on the basis of the price and conditions established by the contract. Along with it, the accounts payable are recognized in the full amount of the contract, whether the advance was paid or there was a prepayment against delivery. The amount of the advance payment is accounted towards performance of obligations under the contract.

4.10.7 In order to assess the payables arising from contracts which provide significant deferral or installment payments, the accounts payable is accounted as equal to the nominal price of the contract minus the amounts paid.

SETTLEMENTS WITH BUYERS AND CUSTOMERS

4.10.8 Calculations with buyers and customers include:

- accounts receivable from buyers and customers, including the issuance of promissory notes;

- advances and prepayments received from customers.

4.10.9 Accounts receivable with promissory note are reflected separately.

4.10.10 Accounting unit of settlements with buyers and customers is receivable (payable) to each buyer (customer), every contract, every document against payment.

4.10.11 The amount of receivables is determined on the basis of the price and conditions established by the contract. If price is not specified in the contract and cannot be established based on the terms of the agreement, then to determine the debt the following price is taken: the price at which in comparable circumstances (the contract is concluded for the same period, the counterparties are located in the same region, etc.) the Company generally determines income in respect of similar values, works and services. This receivable is recognized in the full amount under the contract, regardless of whether or not the advance payments or prepayment against delivery were received. The sum of the advance payment is accounted towards performance of obligations of the buyer (customer) under the contract.

4.10.12 In order to assess the receivables arising from contracts which provide significant deferral or installment payments, the accounts payable is accounted as

equal to the nominal price of the contract minus the amounts paid.

SETTLEMENTS WITH THE BUDGET ON TAXES AND LEVIES

4.10.13 An accounting unit of settlements on taxes and duties is a tax (levy) to every budget (extra-budgetary fund).

4.10.14 The taxes and duties are recognized in the accounting records as of the date of accrual of taxes (levies).

4.10.15 Taxes and levies are taken into account in the following order:

taxes paid by the Company as a tax agent: personal income tax, and other taxes and charges paid at the expense of the income of employees and third parties are related to the reduction of the Company's obligations to employees and third parties to pay the related income;

other taxes and levies (property tax, transport tax, land tax, etc.) are carried through cost structure.

4.10.16 Fines and penalties for violation of legislation which establishes mandatory payments of taxes and levies are carried through taxes and levies.

SETTLEMENTS WITH NON-BUDGETARY FUNDS FOR SOCIAL INSURANCE

4.10.17 While acknowledging obligations to employees at the same time is acknowledged the obligation of the relevant insurance payments, which appear (arise) at the actual fulfillment of obligations to employee in accordance with the current legislation of RF.

4.10.18 Contributions to the social security and welfare, calculated in accordance with the RF legislation, are accounted on the last day of the month for which payments were accrued to employees, from which the accrual of such deposit was carried out.

4.10.19 Liabilities for insurance payments are recognized as an expense or included in the price of assets in the same manner, in which the insurance payments were accrued.

4.10.20 Insurance payments accrued on employee benefits that are qualified as part of estimated liabilities, are also acknowledged as estimated liabilities. Estimated

liabilities on insurance premiums are accounted in the same manner, in which the corresponding estimated liabilities on employee benefits are accounted.

SETTLEMENTS WITH STAFF IN RESPECT OF PAYMENT FOR LABOUR

4.10.21 Peculiarities of accounting of settlements with the personnel in respect of payment for labour are described in section “Employee Benefits” hereof.

SETTLEMENTS WITH ACCOUNTABLE PERSONS

4.10.22 Debt of an accountable person for the provide fund is acknowledged at the date of issuance of cash and (or) monetary instruments from the counter to the accountable person or on the date of transfer of money on a plastic card provide to the employee or on the date of the non-cash payment / cash withdrawal by the accountable person from a corporate credit card owned by the Company.

4.10.23 Debt of accountable person is redeemed on the date of approval of advance report of accountable person by the director or a duly authorized person and (or) as of the date of return of the unused balance in cash (date the money are returned by the accountable person to a corporate bank card, on the date of return of unused money) or on the date of deduction from wages.

4.10.24 Debt of the Company to the accountable person (deficit on advance report) is recognized at the date of approval of advance report of accountable person by director or a duly authorized person.

4.10.25 Issue of funds on condition of accountability is not acknowledged as an advance payment in the currency. Liability of an employee is converted into rubles at the date of providing funds condition of accountability and the date of advance report. Expenses incurred by the employee are estimated as of the date of the advance report.

4.10.26 Travelling allowance and daily living expenses during the trip, as well as the period of providing advance reports on issued funds on condition of accountability are determined in the local regulatory document of the Company – “Regulations on business trips of employees”.

SETTLEMENTS WITH EMPLOYEES ON OTHER TRANSACTIONS

4.10.27 Settlements with employees on other transactions are all kinds of payments to employees of the Company (in cash and non-cash form), which arise as a result of economic relations between them, except for wage settlement and settlements with accountable persons

SETTLEMENTS WITH MEMBERS OF THE BOARD OF DIRECTORS

4.10.28 Remuneration to the board members are recorded in other expenses.

SETTLEMENTS WITH SHAREHOLDERS

4.10.29 Payment of dividends to founders for the year (interim dividend) is reflected in accounting at the date of the general meeting adopts a decision to pay the dividends.

SETTLEMENTS WITH SUNDRY DEBTORS AND CREDITORS

4.10.30 Settlements with sundry debtors and creditors are payments (in cash or non-cash) to legal entities and individuals that are not part of the suppliers (contractors), buyers (customers), employees and founders (participants) of the Company arising in the result of the Company's relationship with these individuals. The structure of settlements with sundry debtors and creditors also includes settlements of the Company with the budgetary and non-budgetary funds, with separate subdivisions of the Company.

4.10.31 As part of settlements with sundry debtors and creditors are reflected calculations on the following operations:

settlements in respect of property and personal insurance;

settlements in respect of rent, lease and transfer of other property rights;

settlements with the banks for the purchase (sale) of currency;

settlements with intermediaries (agents, attorneys commissioners) for reimbursement of expenses and payment of intermediary remuneration;

settlements in respect of dividends and other income due;

settlements in respect of claims, fines and penalties for economic contracts;

settlements in respect of deposited amounts;

settlements with to third parties on deductions from salary;

settlements in respect of membership fees to the self-regulatory organizations and non-commercial partnership other similar calculations.

4.10.32 Prepaid insurance contracts are reflected in the sub-accounts of the account settlements in respect of property and personal insurance and are recognized as expenses of the Company so far as the expiry of the insurance period. The calculation of the monthly write off of expenses is carried out in days.

IN-HOUSE SETTLEMENTS

4.10.33 Making entries of accounting transactions concerning the settlements with separate subdivisions entered on a separate balance sheet shall be carried out in account “In-house Expenses” based on the information about the analytic groups. In this case the primary allotment of a branch with balance indices shall be presented in a separate subaccount “Calculations Related to Assigned Property” of account 79 “In-House Calculations”.

4.10.34 The reconciliation of data on in-house settlements reflected in accounting records shall be carried out monthly between the branches` account departments and accounting department of the Company`s executive bodies. The Statement of reciprocal payments reconciliation shall be drawn up on the last date of reporting period.

4.10.35 Accounting statements prepared according to the results of recorded business transactions as well as that related to internal forms of accounting shall be submitted monthly, quarterly, annually by the branches to the accounting departments of the Company`s executive bodies within the terms stipulated for presenting the accounts. In this case the data on in-house settlements with operating developments shall be excluded from the branch`s balance indices and other forms of accounting.

4.10.36 Responsibility for the presented accounts accuracy shall be entrusted to the branch`s chief accountant.

4.10.37 All types of in-house settlements between the Company`s branches shall be shown in books of the Company`s executive bodies. The notice of reciprocal payments changes of account 79 shall be regarded as an internal document – aviso

(from No. MPIO-31).

4.10.38 Aviso shall be submitted by the party transferring the assets (liabilities) in 3 copies with enclosed copies of accounting documents (bills, statements etc.) confirming the transaction when the settlement is carried out between two branches through executive bodies and in 2 copies when the in-house settlements are performed between a branch and executive bodies.

4.10.39 Aviso submission concerning all transactions of cash assets receipts and expenditure in settlement and special accounts of the Company`s executive bodies on behalf of branches shall be carried out by the Treasury of the Company`s executive bodies.

PROVISION FOR DOUBTFUL DEBTS

4.10.40 The Company establishes an allowance for doubtful accounts receivable. The reserve is created, and its value shall be reviewed quarterly, as of the last day of the reporting quarter on the basis of consideration of the Working Group of work with accounts receivable and payable: debt, reports of subdivision of legal groundwork, other responsible departments, other supporting documentation separately for each bad debt.

4.10.41 Doubtful debts for the purposes of creating a reserve is debt of customers, meeting the following conditions:

- Debts established as a result of the recognition of revenue from ordinary activities of the Company;
- Overdue debt (unresolved) over 120 days. (For transfer services and technological connection for each act of the services rendered under the contract);
- The probability of debt repayment is estimated to be low.

4.10.42 Provision is the total amount of debt recognized as doubtful.

4.10.43 Reduction or increase in the amount of the provision is recognized as changes in the accounting estimate and shall be recognized in the accounting by including other income or expense prospectively.

WRITING OFF UNCOLLECTIBLE RECEIVABLES

4.10.44 Uncollectible receivables are accounts receivable on liabilities that were terminated as a result of liquidation of a company, and accounts receivable with expired limitation period due to inability to reclaim the payment through the court. Writing off debts that are recognized as uncollectible, is carried out at the expense of reserve on the debit account 63 “Bad debt provision” in correspondence with accounts of the receivables based on the report of the Working Group on work with accounts receivable, accounts payable and order of the head of the Company.

WRITE OFF OF ACCOUNTS PAYABLE

4.10.45 The period of limitations on the obligation to return the paid advance, if the contract does not set a term of its execution, shall commence after 7 days from the date of submission of a written demand to return the paid advance.

4.10.46 The period of limitations on the bill obligations (promissory notes for the period from the presentation) is considered to be expired after four years from the date of drawing up the bill.

4.10.47 Sums of payables on which the period of limitations has expired, are written off under each obligation on the basis of the inventory, a written justification and order of the head of the Company and are included in other income.

4.11 FINANCIAL INVESTMENTS ACCOUNTING

4.11.1 The Company regards as financial investments the assets that do not have a physical nature and are capable to provide economic benefits (return) in the period ahead as interests, dividends or increment of value (as difference between the selling price (paying off) and the cost) as a result of their exchange, usage in repayment of obligations, increase of current market value.

4.11.2 Bills issued by the buyers of goods, works and services of the Company, received by a Company from a drawer when settling for these goods, works and services shall not be regarded as financial investments and shall be reflected in accounting and reporting as accounts receivable of buyers and customers ensured by the bills received.

4.11.3 Financial investments are divided into individually determinate and

indeterminate. Investments, the unit of which has its own individual distinctive features: security series and number; organization details in the authorized capital of which investments have been made, details of special partnership contract, contract of loan, of deposit, of chose in action accrual etc. shall be regarded as individually determinate investments. Investments the unit of which does not have individual features but has generic distinctive features – details of undocumented share issue etc. shall be regarded as individually indeterminate investments.

4.11.4 An accounting unit of financial investments shall be:

- for individually determinate financial investments – a separate investment (a security, investment in the authorized capital of a separate organization, a separate special partnership contract, a loan or a deposit, settled as a separate contract, rights of claim received by a separate contract etc.);
- for individually indeterminate financial investments – a round lot. The round lot is considered to be a set of securities of the same issue (of the same Issuer, of the same type, of the same life, of the same face value etc.), acquired by the Company as a result of one transaction.

4.11.5 Recording of financial investments shall be carried out based on centralized direction in the Company, by the accounting and tax department of the Company's executive bodies. Analytical recording of financial investments shall be performed in relation to short-term and long-term financial investments. Investments made with the intention to earn revenue from them in the period of more than a year shall be referred to long-term financial investments. Other financial investments shall be regarded as short-term ones.

4.11.6 All the costs directly connected with the acquisition of assets as financial investments irrespective of their amount shall be included in the original cost of financial investments if they have been made before the moment or at the moment of taking on discount and shall be written off being referred to sundry expenses in case they have been made after the moment of taking the financial investments on discount.

4.11.7 For the purpose of ensuing evaluation the financial investments are

subdivided into:

- investments which make it possible to determine the current market value;
- investments which do not make it possible to determine the current market value.

4.11.8 Financial investments in the securities circulating at the share market (stock exchange, auction) the quotations of which are regularly published shall be referred to financial investments which make it possible to determine the current market value. All the rest shall be referred to financial investments which do not make it possible to determine the current market value.

4.11.9 Financial investments which according to the established procedure make it possible to determine the current market value shall be reflected in accounting at the end of the reporting year at the current market value by adjusting their appraisal related to the previous reporting date.

4.11.10 The difference between the valuation of financial investments based on the current market value on the reporting date and previous valuation of financial investments shall be regarded as other revenues and expenses.

4.11.11 If the current market value on the reporting date shall not be determined in relation to the item of financial investments, evaluated earlier in accordance with the current market value, such item of financial investments shall be recorded in accounting statement at the cost of hereof last evaluation.

4.11.12 Financial investments which do not make it possible to determine the current market value shall be recorded in the accounting statement at the original cost.

4.11.13 Debt securities and loans granted are not calculated using their discounted value.

4.11.14 In case of retirement of assets taken on discount as financial investments, on the basis of which the current market value is defined, their cost shall be defined proceeding from the last valuation.

4.11.15 In case of retirement of financial investments, on the basis of which the current market value is not defined, their cost shall be defined as follows:

- investments in authorized capitals of other organizations (with the exception of shares of joint stock companies), loans granted to other organizations, deposits in lending agencies, accounts receivable, acquired on the basis of assignment of the right of claim, shall be evaluated at the original cost of each retired item from the items of financial investments specified herein;
- securities (shares and bonds) to be retired shall be evaluated at the average original cost which is defined for each type of securities;
- purchased bills to be retired (payment for the works performance (goods, works, services)) shall be evaluated at the prime cost;
- other financial investments – at the original prime cost of each item to be retired

4.11.16 Returns received from financial investments shall be regarded as other revenues.

4.11.17 Interests (coupon yield, discount) on securities shall be accrued for each last reporting period in accordance with the terms of contracts. Accounting of interest, discount, dividends and coupon income is carried out on the account 76.03 “Settlements in respect of dividends and other income due”.

4.11.18 Expenses connected with granting loans to other organizations, servicing of financial investments, payment for services of a bank and/or depository for keeping the financial investments, statement of a custody account etc. shall be referred to other expenses.

INVESTMENT DEPRECIATION RESERVE

4.11.19 The Company performs a mandatory impairment test of investments as of December 31 of the reporting year. Impairment of investments is recognized as sustained material reduction in the cost of investments which is lower than the economic benefits that the Company expects to receive from these investments.

4.11.20 As consistent tendency of devaluation of financial investments the Company recognizes the tendency of reduction in the cost of category of investments for more than 1 year from the date of the previous test for impairment of financial investments, but not before the first reporting period (years) from the date of acquisition.

4.11.21 If there is a sustained reduction in value of financial investments for which market value is not determined by comparing the carrying value of financial investments with the estimated cost, the Company forms an investment depreciation reserve. Along with it, the substantial and steady decline in the value of financial investments is characterized by the simultaneous presence of the following conditions:

as at the balance sheet date and the previous balance sheet date the carrying amount is substantially (more than 10%) higher than their estimated value;

during the reporting year, the estimated value of investments has significantly (more than 10%) changed only in the direction of its reduction;

as at the balance sheet date there is no evidence that in the future there might be significant (more than 15%) increase in the estimated cost of these investments.

4.11.22 Estimated value of investments (financial assets) can be determined:

based on an evaluation carried out by an independent appraiser or;

based on the estimated value of investments using the information on the net asset value as at previous reporting dates in the dynamics and the total number of shares (shares).

4.11.23 The Company make reserve if there is confidence that the organization - the issuer of the securities, the rights to which belong to the Company, or its debtor under the loan agreement is bankrupt or has confidence in declaring it bankrupt in the near future.

4.11.24 Reserve is made in the amount of:

carrying value of financial investments in the case of absolute certainty in the impossibility of sale (redemption, repayment) of financial investments, due to the bankruptcy proceedings and other reasons;

carrying value minus the estimated cost of investments in the event of presence of information on:

inability to get income due to decrease in cost of net asset over a long period;

on the bankruptcy proceedings with the indication of line on the list of creditors and possible redemption (repayment) of funds invested in the company (organization);

other information that proves the sustained material impairment of financial investments.

4.11.25 Regular failure to obtain income from financial investments is one of the signs of impairment, under which the Company conducts an impairment test of investments.

4.11.26 Estimated value of investments - value determined on the basis of the calculation of the Company, equal to the difference between their value at which they are reflected in accounting (accounting value), and a significant reduction in the sum sustainable.

4.11.27 Net assets are valued on the basis of trend analysis (the value of net assets as at the end of the period (9 months) is compared to last year's periods). When calculating depreciation all available additional information (not only changes in net assets) is taken into account, such as: data on management accounting, estimate of future cash flows, the state of the industry, information from the media and other external sources.

11.04.28 The Company forms a provision for impairment of financial investments at the expense of the financial results (in miscellaneous expenses).

4.11.29 Company makes adjustment of investment depreciation reserve annually on 31 December of the reporting year.

4.11.30 If, based on the available information, the Company concludes that the financial investment no longer meets the criteria for sustainable cost reduction, the reserve is restored to the full amount of the provision for these investments. Similarly, is written off the value of the allowance for retired (sold, written off) financial investments.

4.12 CASH AND CASH EQUIVALENTS

4.12.1 The Company's monetary funds include:
cash in hand;

cash at bank, special, transit, exchange accounts, accounts of corporate cards and other bank accounts;

future sums.

4.12.2 Cash management in the accounts of corporate cards is carried out in the context of each corporate card on the basis of the monthly report of the credit organization on the movement of funds in the accounts of the Company's corporate cards.

4.12.3 As cash equivalents the Company recognizes deposits with maturities up to 3 months and bills of commercial banks, with repayment period on demand. For separation of investments recognized as cash equivalents, accounting unit is assigned a sign of “cash equivalent”.

4.12.4 Monetary instruments are documents acquired by the Company for a specific purpose, and kept in hand for the future usage, after a certain time. They certify the right of a legal entity transferred to an individual for a particular service, the cost of which is indicated in the monetary instruments.

4.12.5 Company's criteria for classifying documents as monetary instruments are:
presence of par value on the document;

payment for the document;

the ability to return the document to the supplier (i.e. redeemed for cash).

4.12.6 Monetary instruments are classified into:

documentary (documents on paper or in plastic);

paperless (electronic tickets for railway and air transport (itinerary / receipt of electronic passenger ticket).

4.12.7 Accounting for financial documents is made on the account 50 “Cash” sub-account “Monetary instruments”.

4.12.8 The financial statements include the value of monetary instruments in the part of receivables.

4.12.9 Cash instruments are recorded in the sum of the actual cost of their purchase.

4.12.10 Receipt and delivery of monetary instruments of the Company is carried out by making entries in the register of financial instruments on the basis of the unique credit and debit cash orders, forms of which are developed by the Company.

4.12.11 Outflow of monetary instruments takes place in case of:

sale to employees of the Company (holiday trips to employees and their families)

return to the seller (air and railway tickets)

transfer to employees of the Company on condition of accountability (coupons for oil products, travel card, tickets for various means of transport, pre-paid card).

4.12.12 Before the usage the monetary instruments shall not be included in the expenses of the Company or the written-off from other sources.

4.12.13 The Company makes a report on cash flows in accordance with the Regulations on accounting “Cash flow Statement” PBU 23/2011, approved by Order of the Ministry of Finance No.11H dated 02.02.2011.

4.12.14 Cash flows that characterize not only the Company's activities by the activities of its counterparties, and (or) when the proceeds from individuals cause corresponding payments to other persons are recognized by the Company as transit and reflected in statement of cash flows. For transit cash flows include:

cash flow of business agent or agent (other than a payment for services themselves);

indirect taxes as part of revenues from customers and suppliers, payments to contractors and suppliers and payments to the budget system of the Russian Federation and compensations from it;

receipts as the reimbursement of utility bills, and the implementation of these payments in respect of lease and other similar relation;

receipts from employees as compensation for the cost of holiday trips, purchased by the Company acquired third party organizations and payments to third parties for the acquisition of the trips;

receipts as reimbursement of the expenses on the arrangement of events, and payments for the organization of the event;

wrongly received from third parties and the amount written off by the bank;
return of previously made payments because of incorrect details and for other reasons;
received and returning amounts of collateral of requests of bidders and auction;
sickness benefits and allowances at the expense of Social Insurance Fund and the corresponding receipts from the Social Insurance Fund.

4.13 CAPITAL

4.13.1 The Company shall not reduce the amount of authorized capital recorded in hereof accounting statements, by the unpaid capital amount: the authorized capital and founders` actual liabilities related to investments in the authorized capital shall be recorded in accounting statements separately.

4.13.2 All changes of the authorized capital amount (including the forwarding of surplus funds to increase the authorized capital) shall be recorded in the Company`s accounting statements only after making the corresponding adjustments to hereof articles of association.

4.13.3 Capital reserves shall be made by the Company from hereof income on the basis of constituent documents and founders` (shareholders`) decision.

4.13.4 Company`s surplus shall consist of the increment of value of hereof property received from hereof revaluation and from additional paid-in capital.

4.13.5 Surplus expending shall be carried out separately. The increment of property value received from revaluation shall be used to write down those property items which have been earlier written up and only within the sums accumulated on each separate inventory item. At the moment of taking the item off the books (for any reasons) the writing up sums accumulated on the item shall be attached to the account of Company`s retained income. Additional paid-in capital shall be used by a shareholders` meeting decision (at the year termination).

4.13.6 Undistributed profit should be spent by the Company for the following purposes:

- Write-down of non-current assets in excess to sums of additional capital;
- Correction of material errors of previous reporting year;

– goals defined by the Company’s founders (shareholders) including the payment of dividends, financial provision of production development and other analogous activities aimed at acquisition (producing) of new property etc.

4.14 LOANS AND CREDIT LINES

4.14.1 Recording of interest and borrowing charges shall be kept in accordance with Accounting Regulations 15/2008.

4.14.2 In order to determine the procedure of accounting the capitalized costs in part of interest on the loans and credits, the Company allocates investment assets among the objects of investments.

4.14.3 An item is acknowledged as investment asset when the following criteria are observed:

preparation of an item for its use requires considerable time (more than 6 months), as well as the high cost of purchase and (or) construction (property complexes and other similar assets);

in the current period in relation to this item is carried out work on the preparation of the item for its intended use. This includes in particular, technical and administrative work prior to the creation of the asset (the activities associated with obtaining permits to start construction). All expenses for the preparation of such item of the property are acknowledged as significant.

4.14.4 For the purposes of setting the criteria of an investment asset the period of construction is determined in accordance with the plan of production, renovation/modernization of an asset of the investment programme with regard of the terms for design and survey works for the construction of the asset.

4.14.5 Company’s borrowed funds are classified:

by the maturity;

by type of loan funds (e.g. bank loans, cash loans, promissory notes and bonds);

by the currency of the loan (credit);

by the nature of the debt (principal amount (under the contract) and the interest (discount)).

4.14.6 Short-term debt is a debt maturing after the reporting date, but not more than in 12 months. The long-term debt is a debt maturing 12 months after the balance sheet date.

4.14.7 The Company reclassifies (transfers) long-term debt in the short term at each reporting date. Reclassification of debt on borrowed funds (both on principal and the respective accrued interest) is carried out in the following order:

short-term debt is transferred into long-term debt, if there is an agreement for the extension of short-term loan agreement in such a way that the maturity of the loan will be more than 12 months (365/366 days) from the date of the balance sheet,

long-term debt is reclassified to short-term debt under the terms of the agreement the repayment is due less than in 12 months 365/366 days

4.14.8 Principal amount of loans and credit confirmed in notes payable is specified:

when issuing interest bearing note – bill at par;

interest bearing note interest bearing note - by the sum of the funds received.

4.14.9 The amount of principal debts on loans borrowed by issuing bonds is reflected in the sum of the nominal value of bonds.

4.14.10 Borrowing and credit costs are acknowledged as miscellaneous expenses of the reporting period. An exception is interest on loans and credits that are subject for inclusion in the value of investment assets.

4.14.11 Borrowing and credit costs raised for the acquisition of fixed assets and intangible assets that cannot be acknowledged as investment assets in the general order are reflected in miscellaneous expenses of the Company.

4.14.12 Interests on borrowing costs are included in the cost of an investment asset or in miscellaneous expenses evenly (monthly) during the period of use of the borrowed funds, regardless of the date of actual payment of interest.

4.14.13 Interest payable by the Company (the maker of a promissory note (the issuer) are recorded separately from the principal amount (par value of the bond) as accounts payable.

4.14.14 Accrued in the prescribed manner interest (discount) for the promissory note (bond) will be recognized in miscellaneous expenses, except for the interest (discount) of promissory notes (bonds) issued and sold for the acquisition of investment assets (capitalized interest).

4.14.15 Interest (discount) for issued and sold promissory notes (bonds) are included in the cost of an investment asset or a part of miscellaneous expenses in the accounting periods to which these accruals refer.

4.14. Additional costs on loans and credits are included in miscellaneous expenses in the period in which they were produced.

4.14.17 Costs (interest) on loans and borrowings for the purposes of division of information by geographical segments (subjects of the federation on the territory of which the rates are established) are distributed among the branches of the Company in accordance with the methodology developed by the Company.

CAPITALIZED INTEREST

4.14.18 Interest on borrowed loans and credits for establishment of investment assets are included in miscellaneous expenses in full volume before the set by the Accounting Regulation 15/2008 conditions for recognition are met:

the expenses on acquisition, construction and (or) production of an investment asset shall be acknowledged in the accounting records;

borrowing costs related to the acquisition, construction and (or) manufacturing of the investment asset shall be acknowledged in the accounting records;

works on the acquisition, construction and (or) production of an investment asset have begun.

4.14.19 As the start of the works the earliest of the following dates is accepted:

the date of the signing the first statement made according to the form KS-3 on the item corresponding to the investment asset, or the first act of the completed works (services), including the works (services) related to the technical and administrative activities, prior to the commencement of physical construction;

start date of bill payments to suppliers and contractors that are directly related to the acquisition (construction) of investment assets.

4.14.20 With the suspension of the acquisition, construction and (or) production of an investment asset for a long period (more than three months) the interest payable to the lender (creditor) shall cease to be included in the value of investment assets from the first day of the month following the month of the suspension of purchase, construction and (or) the manufacture of such an asset. During this period, the interest payable to the lender (creditor) is included in miscellaneous expenses.

4.14.21 Period, during which is made additional coordination of technical and (or) organizational issues that have arisen in the process of acquisition, construction and (or) production of an investment asset, shall not be considered a period of suspension of the acquisition, construction and (or) production of an investment asset.

4.14.22 With the resumption of the acquisition, construction and (or) production of an investment asset the interests payable to the lender (creditor) are included in the investment asset value from the first day of the month following the month of the resumption of the acquisition, construction and (or) production of the asset.

4.14.23 Calculation of sum of interest on borrowed for general purpose loans and credits is carried in accordance with the methodology approved by the Company.

4.15 SHORTAGES AND LOSSES DUE TO IMPAIRMENT OF ASSETS

4.15.1 Shortages and losses due to impairment of assets are shortages and losses from damage of the material and other assets (including cash) revealed in the course of their production, storage and sale, regardless of whether they are to be charged to the account of expenses for production (costs to sell) or persons responsible.

4.15.2 Loss of values resulting from natural disasters is also considered as part of the losses.

4.15.3 Losses are recognized at the moment of their detection.

4.15.4 The amount of the loss is determined as follows:

in respect of missing or completely damaged inventory items - at their actual cost;

in respect of missing or completely damaged fixed assets - their residual value (cost minus accrued depreciation);

partly spoiled by material values - in the sum of determined losses;

when accepting the values received from suppliers - in the amount of shortage within the limits stipulated in the contract value;

when the court rejects on recovering the amounts of losses to the suppliers or transport companies - in the amount of shortage in excess of the provided for in the contract values, previously allocated to settlements with suppliers or transport organization.

14.15.5 Sums of losses recorded in the debit account 94 and not transferred by the end of the reporting period to the relevant sources of covering the losses are recorded in the line "Other current assets section II "Current assets" of the balance sheet.

4.16 ESTIMATED LIABILITIES

4.16.1 Estimated liabilities are existing obligations of the Company with an uncertain amount and / or deadlines, arising from past events, the settlement of which is expected to lead to the retirement of the Company's resources embodying economic benefits.

4.16.2 The Company recognizes the estimated liability when conditions of recognition are fulfilled in respect of the following obligations:

the following judicial proceedings are not completed as at the balance sheet date: the judicial proceedings in which the Company acts as plaintiff or defendant, and on which decisions can be taken only in the next reporting periods, leading to an outflow of economic benefits of the Company;

disagreements with the tax authorities on payments to the budget are not settled;

the restructuring of the Company, the sale or termination of any activities of the Company, the closure of subdivisions of the Company, or their movement to

another geographic region, etc.;

conclusion of knowingly loss-making contracts;

payment of employee benefits;

other similar obligations.

4.16.3 For the purposes of impact assessment shall be analyzed all of the above-mentioned circumstances, the consequences of which exceeds 500 thousand rubles.

4.16.4 The estimated liability is recognized in the accounting records when the following conditions are observed simultaneously:

the Company has an obligation as at the balance sheet date, which was the consequence of the past events of economic life, the fulfillment of which the Company cannot avoid. In the event the Company has doubts on presence of such obligation, it recognizes a provision if in the results of analysis of all the circumstances and conditions, including expert opinion, it is more likely that the obligation exists;

decrease in the economic benefits of the Company, necessary for the execution of a provision is possible. The probability of event that leads to a decrease in the economic benefits is more than 50%;

the amount estimated liability can be reasonably estimated.

4.16.5 When recognizing an estimated liability depending on its nature, the value of an estimated liability refers to:

expenses on ordinary activities (accounts for costs on of production or costs for selling), provided that the existing as at the balance sheet date commitments are related to the production of finished goods, rendering of services, implementation of works, which the Company performs on a regular basis in the ordinary course of activity;

asset value (fixed assets, other non-current assets, etc.), provided that the current obligation at the balance sheet date is related to the creation, construction, acquisition, development, manufacturing of property.

other expenses (Account 91 "Miscellaneous Income and Expenses"), provided that the existing obligation as at the balance sheet date is not necessarily related to

ordinary activities or the creation, construction, acquisition, development, manufacturing of property.

4.16.6 The estimated liability is recognized in the accounting records of the Company in the amount necessary for the performance itself (repayment) obligation at the balance sheet date or to transfer the obligation to another person as at the balance sheet date.

4.16.7 Estimated liability (reserve) is created for contingent liabilities, the estimated money value of which exceeds 5 million. This criterion is not applicable to estimated liabilities on employee benefits.

4.16.8 The value of a provision is determined by the Company on the basis of the facts of economic life of the Company, the experience in the performance of similar obligations, and, if necessary, expert opinion. The Company shall provide documentary proof of feasibility of such an assessment. As documentary evidence of the value of estimated liabilities can be used: contracts, certificates and calculations of relevant departments, the conclusion of the legal service of the Company, etc.

4.16.9 At the actual calculation of the amount of recognized estimate liabilities the sum of Company's costs related to the implementation of these commitments, or corresponding payables is written off against previously created estimated liabilities.

4.16.10 Acknowledged estimated liability can be written off on account of reflection or recognition of costs payable only on the implementation of the commitments on which it was created.

4.16.11 In the event of insufficiency of the amount of recognized estimated liability, the Company's repayment is reflected in accounting according to the standard procedure for the obligations of this kind.

4.16.12 In the case of redundancy of recognized estimated liability, the excessive amount of the estimated liabilities is written down in the miscellaneous income of the Company.

4.16.13 In case of repayment of homogeneous estimated liabilities arising from

recurrent business activities of the Company, the previously recognized redundant sums are reflected to the next estimated liabilities of the same kind directly at the moment of their recognition (without the write-off of the previously recognized surplus amounts to the other income).

4.16.14 The feasibility of the recognition and amount of the estimated liability are subject to review by the Company at the end of the reporting year, as well as upon the occurrence of new events related to this obligation.

4.16.15 Contingent assets and contingent liabilities (including the disacknowledged estimated liabilities) in the accounting records are not recorded and information is disclosed in the notes to the balance sheet and financial results. Disclosure of information in the financial statements is based on calculations compiled by structural subdivisions (departments, agencies, sectors) to which, in accordance with the functions performed, these events refer.

4.17 EMPLOYEE BENEFITS

4.17.1 Employee benefits include:

- wages (payment for the labour of an employee), including compensation and incentive payments;
- compensations directly related to the implementation of employee's functions (paid work breaks, holidays: annual, supplementary training, temporary disability benefits, etc.);
- payments to employees and in favour of employees to third parties (including family members of employees), carried out in connection with fulfillment by the employees of labor functions that are not included in wages (hereinafter - voluntary social contributions), in particular: the cost of treatment, medical care, voluntary medical insurance, voluntary pension and pension supplements, training, food, payment (payment) utility costs,
- payment (compensation) of interest expense on loans (credits), etc.
- funds deducted to trade union organizations; for cultural and recreational activities.

4.17.2 The requirements of this chapter shall also apply to the insurance payments

to the Pension Fund of the Russian Federation for compulsory pension insurance, to the Social Insurance Fund for compulsory social insurance for temporary disability and maternity, compulsory medical insurance funds for compulsory health insurance, as well as insurance contributions for compulsory social insurance and occupational diseases payable in accordance with the current legislation of the Russian Federation in connection with employee benefits in the form of wages (hereinafter - insurance premiums).

4.17.3 Employee benefits are recognized as short-term liabilities (accrued expense), after deducting any amount of already paid sum (credit side of accounting settlements with the personnel) and as expenses on core activities (debit side of accounting production expenses) or as miscellaneous costs, except for the amounts of in the cost of the asset in accordance with the rules established by the regulatory legal acts on accounting and Single corporate accounting policy.

4.17.4 Employee benefit obligations in the form of wages, with the exception of paid work breaks are recognized in the period in which employees fulfilled their functions.

4.17.5 Paid breaks are recognized in the following order:

if the paid time off can be transferred to future reporting periods (for example, a regular holiday), then the corresponding liability is recognized in the period in which employees perform their functions, which resulted in the employees' right to have paid breaks;

if the paid time off cannot be transferred to future reporting periods (for example, compensation for temporary incapacity), the corresponding liability is recognized in the period in which the Company received the obligation to compensate employees the absence at work.

4.17.6 Measurement of liabilities on remuneration is carried out the following way:

the employee's salary is set in the labor contract in accordance with the Company's wage system.

wage rates, fixed official salaries, compensations and incentive payments, voluntary contributions to social needs, paid breaks and other compensations are

specified by collective agreements, contracts, local regulations of the Company in accordance with the labor laws and other normative legal acts of labor law.

the size of insurance premiums set by the relevant legislation of the Russian Federation.

4.17.7 Liabilities for employee benefits with an undefined value and (or) deadlines of performance are qualified as estimated when the conditions for the recognition of estimated liabilities set forth in this Regulation.

4.17.8 The amount of estimated liability for employee benefits is determined taking into account the premiums, which appear (will appear) in case of the actual fulfillment of liabilities for employee benefit in accordance with the current legislation of the Russian Federation.

4.17.9 On each reporting date, the Company forms an estimated liability for payment of holidays. The calculation of estimated liability is carried out monthly for each employee, in accordance with the method developed by the Company. All current accruals of holiday allowances, compensation for unused holiday in case of resignation are written off against the accrued estimated liability. The liability is classified as short-term.

4.17.10 The soundness of the recognition and the amount of estimated liability are subject to review by the Company as at the end of the reporting year as part of the annual inventory and future events related to this obligation (for example, when an employee leaves the accrued estimated liability for holiday pay shall be written off completely) .

4.17.11 Estimated liability for payment of the annual bonuses by the results of the year is recognized if at the end of the year the conditions set out in the by-laws of the Company, under which workers gets the right to receive such bonuses, are met. A provision for estimated liabilities on payment of the annual bonuses by the results of the year is created on the last day of the reporting year.

4.17.12 Estimated liability for payment of quarterly bonuses by the results of the quarter is recognized if at the end of the quarter the conditions set out in the by-laws of the Company, under which workers gets the right to receive such bonuses,

are met. A provision for estimated liabilities on payment of the quarterly bonuses by the results of the quarter is created on the last day of the reporting quarter.

4.17.13 Provision for estimated liability for the payment of monthly remuneration by the results of December is created on the last day of the reporting year, if the conditions set out in the by-laws of the Company, under which workers acquire the right to receive remuneration, are met. A provision for the estimated obligation to pay the monthly remuneration by the results of work in January - November is not created, the current expenses are recognized as at the last day of the month in which the remuneration was actually accrued.

4.18. REVENUE

4.18.1 The Company divides the revenues into the ones collected from usual kinds of activity and other revenues.

4.18.2 As revenue from the core activities of the Company recognizes the revenue from the sale of goods (works, services) received from the core activities. The Company recognizes the following types of revenues as revenues from basic activity:

- revenues from electric-power transmission services;

- revenues from services related to technological connection to electricity networks;

- revenues from rent;

- revenues from sales of other works and services of industrial character;

- of non- industrial character

4.18.3 Revenues from electric-power transmission services include all revenues from transmission of energy consumed by market entities in regions of Company's servicing. The electric-power transmission is considered to be a regulated kind of activity.

4.18.44 Revenues from services related to technological connection to grids include the Company's revenues earned hereby in consequence of performance of a set of operations (events) of organizational and technical character aimed at

ensuring the possibility of electric-power transmission to power receivers of artificial and natural persons in accordance with the parameters stated by them as well as at ensuring the power provided by electric substations. Revenues from technological connection shall be classified into groups according to voltage level, power to be connected and power stated by the applicant.

4.18.5 Proceeds from sales of other works and services include all revenues related to selling of works and services (except for the electric-power transmission services, services related to technological connection to electricity networks) regarded as other revenues by the Company.

4.18.6 These revenues are subdivided according to types of works and services:

- into revenues from selling of other works and services of “industrial” character: transportation services; communication services; other works and services of “industrial” character, of granting the property on lease;
- into revenues from selling of other works and services of “non-industrial” character: catering services; services of medical health-improving institutions; other works and services of “non-industrial” character.

4.18.7 Company’s revenues in accordance with the accrual basis of accounting shall be recorded in the reporting period in which they took place irrespective of the actual time of receipt of cash assets connected with these facts.

4.18.8 Income from electric-power transmission services shall be recognized on the basis of Act of provided services specifying the volume of rendered services on electric-power transmission according to contracts concluded with Retail, Grid companies and customers of WEEM. The Act shall be drawn up on the basis of monthly documents: bill of transmitted electric-power volume; acts of net power flow of electric power; acts of productive supply drawn up in natural measures. The form and name of acts to be drawn up in natural measures shall be defined by the terms of contract for electric power transmission services. Revenues from electric power transmission shall be recognized in accounting on the date of provision of calculations given in the Act of provided services specifying the volume of rendered services on electric-power transmission and the Act of mutual

flows accounting approved by the parties.

4.18.9 Revenues from services on technological connection to electricity networks and from other services provided by the Company shall be recognized on the basis of Act for works performed (rendered services) on the date of signing the Act by the parties. The specific form and name acts of acceptance of services on technological connection are set by internal regulations of the Company. In cases where the terms of the contract of technological connection services are provided in stages, the revenue is recognized upon completion of each stage of the services after the signing the act of rendered services.

4.18.10 Accounting of revenues from electric-power transmission services and revenues from services on technological connection to electricity networks shall be carried out by account department of Company's branches that determine the results of Company's activities within one constituent territory of the Russian Federation (for a branch within constituent territory of the RF).

4.18.11 When selling goods (works, services) under contracts, the commissions (agency agreements) where the Company is the principal, the date of revenue recognition is recognized as the earliest of the following dates:

- the date of transfer of property rights;

- the date of approval of the report of the agent;

- the date of approval of the act of rendered services (works) delivery-acceptance.

4.18.12 The revenues of the Company acting as principal in the account of the Company are recognized as at the date of approval of the agents report. Expenses reimbursed by the principal to the Company are recognized as at the date of approval of the agents report.

4.18.13 All revenues that are not related to the implementation of works and services on core activities are regarded as miscellaneous income.

4.18.14 As miscellaneous revenues the Company shall recognize the revenues made owing to independent economic transactions which are not object of its activity but are conducted with the aim of earning these revenues, such as:

revenues related to the sale of Company's assets different from cash assets, products, goods:

revenues from the sale of fixed assets;

revenues from the sale of intangible assets;

revenues from the sale of materials and stock;

revenues from the sale of other assets;

revenues from revealed facts of unauthorized consumption of electric energy;

revenues collected according to the terms of separate independent contracts:

revenues from the owned securities;

revenues earned in consequence of having a part in authorized capitals of other organizations;

profit made as a result of collaboration;

interests for using Company's cash assets;

other revenues.

4.18.15 Revenues that are not related to the manufacturing process and circuit shall also be recognized as other revenues. These revenues include revenues from received fines and penalty interest, reimbursement of damages suffered by the Company, gratuitous receipt of property, uncalled accounts payable write-off, determination of rate differences etc.

4.18.16 Earnings obtained in consequence of force-majeure circumstances of economic activity (natural disaster, fire, breakdown, nationalization etc.) shall be recognized as other revenues:

insurance indemnity;

covering losses caused by force-majeure events (fires, breakdowns etc.);

liquidation value of inapplicable property.

4.18.17 For accounting purposes, the amount of miscellaneous revenue is determined in the following order:

proceeds from the sale of property, as well as interest for use of funds of the Company, income from participation in other organizations in a manner similar to the order of evaluation of revenue from ordinary activities;

finances and penalties, forfeits for breach of contract and compensation for damages to the Company are accounted in the amounts awarded by a court or recognized by the debtor;

assets received free of charge, are accounted at market value. The market value of assets received free of charge is determined by the Company on the basis of existing (as at the date of acceptance for accounting) prices for this or a similar type of asset. Data on prices existing at the time of acceptance for accounting, should be documented either by examination;

interest revenues are accounted on the basis of the interest rate established by the contract and the number of days of using the borrowed funds in the reporting period;

surplus property is defined as the value of the most recent acquisitions of similar assets, taking into account the actual depreciation of objects, identified as surplus. In case of the absence of evidence of purchase of a similar property and the inability to determine their reasonable value, in this case the present value of surplus assets is determined by the price quotations received from suppliers;

other revenues are recognized for accounting purposes at their actual amounts.

4.18.18 Other revenues are recognized for the accounting purposes as follows:

receipts from the sale of property, as well as interest received from lease of the Company's funds, and revenue from participation in the authorized capitals of other organizations - the same order as in recognition of income from core activities. Moreover, for accounting purposes, the interest is charged for every last reporting period evenly over the period of use of borrowed funds;

finances and penalties, forfeits for breach of contract and compensation for damages to the Company are recognized for the accounting purposes in the reporting period in which the court made a decision on their collection or they are recognized by the debtor;

the amount of accounts payable and accounts receivable, for which the action limitation period has expired – in the reporting period in which the action limitation period has expired;

dividends - when the shareholder's right to receive payment was determined;

other income in the amount of increases in the value of assets by the results of revaluation of financial investments (except for shares that are not intended for sale), by which is determined the market value, are recorded in the accounting records on a quarterly basis;

other revenues – when revealed (detected).

4.18.19 Revenues from revealed non-contractual consumption are recognized when it becomes possible to receive the compensation: as of the date of signing the Report on the unrecorded consumption of electricity, or the date of entry into force of a court decision on collection of compensation (in the case of the signing of the Report of unrecorded consumption of electricity with disagreements, or in the case of refusal to sign of the Report). When calculating the amount of income, to the total volume of consumed electricity in non-contractual manner, regardless the period of actual consumption shall be used tariffs that are in force as at the date of making the report on revealing the fact of non-contractual electricity consumption.

4.18.20 The sums of the previously recognized costs in respect of loss of electricity in case non-contractual consumption are not adjusted.

4.18.21 Recognition of expense on implementation of electric power transmission services and technological connection to the networks is carried out in the context of subdivision that incur expenses that are related to maintaining and operating of transmission lines, switchgears, substations, and other facilities and equipment intended for the transmission and distribution of electricity and performing services of technological connection to the networks, and in terms of expenditure headings. Recording of these expenses and financial result from the sale of services on electric power transmission and technological connection to the network is performed Department for financial records, accounts and tax returns of the branches.

4.18.22 The process of transmission of electrical energy and services on technological connection to the networks is characterized by the absence of unfinished production. Costs incurred in the process of implementation of these activities are recognized as expenses in the full amount.

4.19 PRODUCTION EXPENSES

4.19.1 Expenses on core activities are recognized as production expenses. The expenses depending on the nature of the costs and their relationship to the production process are recorded in respect of:

- core operation – production, goods (works, services) of which were the object of the Company;

- ancillary industries - industries that are ancillary (auxiliary) to the main production of the Company;

- general expenses of production - the cost of maintenance of main and auxiliary facilities of the Company;

- general economic costs - costs for management purposes that are not directly related to the manufacturing process;

- maintenance of production - costs related to the launch of products, implementation of works and provision of services and service production facilities of the Company.

4.19.2 In the analytical accounting the production expenses are grouped by:

- ordinary activities; economic elements of cost; costing items; cost centres; designation of resources.

4.19.3 The Company for the purpose of accounting and management accounting, as well as for preparation of accounting statements uses the classification by economical elements of cost. The classifier of economical elements has a hierarchical structure.

4.19.4 The upper level of the hierarchy provides for the grouping of expenses by the following cost elements:

- Material costs;

- Labor costs;

Insurance premiums;

Depreciation;

Miscellaneous costs.

4.19.5 Each of the above-mentioned elements of costs is itemized for the purposes of management accounting.

4.19.6 By way of inclusion in the production cost, the costs (including in relation to the type of work, services) are divided into direct and indirect.

4.19.7 Expenses on core kinds of activities shall be recorded in accounts “Mainline Production”, “Auxiliary Production”, “Manufacturing Overhead”, “General Economic Expenses”, “Servicing Productions and Sectors”.

4.19.8 Direct expenses related to provision of services on electric power transmission, technological connection to electricity network and other expenses, indirect costs connected with maintenance of mainline production as well as expenses of auxiliary production shall be accumulated in the account “Mainline Production”

4.19.9 Expenses connected with the processes which are auxiliary to the main technological processes of electric power transmission shall be accumulated in the account “Auxiliary Production

4.19.10 Repair shops, mechanization and transport services, owner`s boiler house and other kinds of activities shall be referred to auxiliary production.

4.19.11 The distribution of indirect expenses of auxiliary production shall be carried out between the uses of indirect expenses (to mainline production, general production expenses, general economic expenses etc.) proportional to the volume of works and services performed by the workshop of auxiliary production in accounting conventional units.

4.19.12 The expenses of auxiliary production shall be included in the prime cost of the products (works, services) in the production process of which the products (works, services) of structural subdivisions under consideration have been used.

4.19.13 Indirect costs related to the management and maintenance of auxiliary production: expense on non-production personnel, maintenance of buildings, structures, equipment, inventory, depreciation, costs for health and safety, etc. are going directly to the sub-accounts “Auxiliary production” without accumulating in the account “Production costs”, “General expenses”.

4.19.14 The account “General production expenses” shall be used to record information on expenses related to management and maintenance of subdivisions of mainline production. Information about the general production expenses shall be formed based on the data on subdivisions and heads of expenditure.

4.19.15 Structural subdivisions of the mainline production, the number of which has been calculated according to norms stipulated for a core activity type, apart from services of electric power transmission and transit shall perform other services, works, that is why, expenses recorded in the account “General production expenses” shall be distributed according to types of rendered works (services) in the amount of the general production expenses included in the calculation of the cost agreed in relation to these types of works.

4.19.16 Production costs are divided into core activities in two phases:

Total expenditures directly related to core activities “Electricity transmission services” and “Services on technological connection to the networks” are written off to the account “Core operations” of relevant activities in the full amount of expenses.

The remaining part of general production costs is divided into activities proportionally to the revenue on an accrued method. When determining the proportion the entire proceeds are taken into account.

4.19.17 The account “General production costs” is used to record the costs that ensure operation of the Company as an integrated economic entity. Information about the general expenses is generated in the context of units cost items, articles of spending trends.

4.19.18 General expenses are allocated to the cost of activities in proportion to sales on an accrued method.

4.19.19 The collected on the accounts "Auxiliary production", "Production costs", "General Expenses" costs are allocated in the following order:

Write-off of expenses of auxiliary production by types for services rendered.

Write-off of general production costs directly related to the activity "Electricity transmission services", "Services of technological connection to the network"

Write-off of balance of unallocated general production costs to the cost of activities in proportion to revenue.

Write-off general production costs to the cost of activities in proportion to revenue.

4.19.20 Income and expenses from the sale of other works and services are accounted by divisions for financial accounting and reporting of the Company's branches (places of origin) in the context of units and cost items.

4.19.21 Account "service plants and facilities" is used for accounting of cost of service plants and facilities, which activity is not related to the performance of work, rendering of services, which were the purpose of the creation of the Company:

housing and communal services (operation of apartment houses, hostels, laundry, bath, etc.);

cafeterias;

hostels, kindergartens;

recreation centres, resorts and other recreational facilities of cultural and educational purposes.

Information on the account is formed separately for divisions, cost items, articles of consumption. The costs collected on this account, are not allocated and are written off to the debit side 90 "Sales".

4.19.22 Selling expenses are expenses related to the sale of products, goods, works and services (sales expenses).

4.19.23 Commercial expenses include:

- personnel of commercial services (commercial services – structural subdivisions of an enterprise performing the following functions: market analysis, marketing and promotion of products, goods, works and services);
- advertising and promotion of services;
- maintenance and use of buildings and stock related to commercial activity;
- stationery and expandable materials for commercial activity;
- entertainment expenses for commercial activity;
- travel expenses connected with commercial activity;
- other commercial expenses.

4.20 EXPENSES

4.20.1 The Company subdivides the expenses into expenses related to usual kinds of activities and other expenses.

4.20.2 Expenses related to usual kinds of activities are considered to be expenses caused by service rendering, works performance, manufacturing work and sale of products, purchase and sale of goods. List of revenues from ordinary activities is provided in the section “Income” hereof.

4.20.3 As other expenses the Company recognizes the costs of independent business transactions that are not subject to its operations, but implemented with the purpose of obtaining income.

4.20.4 Others expenses are also expenses that are not related to the processes of production and circulation. These expenses include the costs of fines and penalties, reimbursement of losses to the Company, transfer of property, write off of overdue receivables, the formation of foreign exchange differences, etc.

4.20.5 Other costs are also costs that arise as a consequence of force majeure and economic activity (natural disasters, fire, accidents, nationalization, etc.)

4.20.6 Expenses shall be accepted by the Company in the following cases: when there is assurance that making expenditures results in income drawing. The costs shall be recognized as expenditure directly (when rendering services,

performing works, making selling expenses) or through retirement of assets for the formation of which the Company has earlier made expenditures (fixed assets, inventories, Company's own output etc.). Then expenses on usual kinds of activities or sundry expenses (retirement of assets, variant from products) shall be recognized in accounting;

when making expenditures cannot be directly referred to any receipts or it is evident that the revenue expected according to corresponding expenses will not be earned. Then sundry expenses (payment of interests on payment, expenses related to laying-up of fixed assets etc.) or losses shall be recognized in accounting. Expenses shall also be recognized in case of an obligation occurrence when the fact of property receipt was not established.

4.20.7 Evaluation of expenses from ordinary activities is carried out at a rate of cost of production, works, services rendered. General rules for accounting of expenses for production, works and services, are specified in chapter "Production costs" hereof.

4.20.8 Cost of electricity transmission services is a set of costs related to the maintenance and operation of:

power lines, switchgears, substations, and other facilities and equipment intended for the transmission and distribution of electricity;

means of metering and control devices.

4.20.9 Cost of services on technological connection to the network is a set of costs related to the implementation of a complex of works (actions) of organizational and technical measures aimed at enabling the transfer of electrical energy to power receivers of legal entities and individuals in accordance with the parameters declared by them, and also to ensure the power output by the electrical substations.

4.20.10 Cost of other works and services represents the total costs related to the implementation of the Company's other works and services.

4.20.11 Branches' general economic expenses shall be included in full in the prime cost of rendered services, performed works in its entirety in the

reporting year when they were recognized as expenses on usual kinds of activities. In accounting these expenses shall be included in line 2120 of form 2 “Profit and Loss Statement”.

4.20.12 All current expenses of the Company’s executive bodies shall be recognized in full as administrative expenses. These expenses for the purposes of administrative accounting (tariff making etc.) shall be allocated to kinds of activities (electric-power transmission services, services on technological connection to electricity networks) and a geographic segment (regions of the federation in the territory of which the tariffs have been formed) in accordance with the methods elaborated by the Company. These expenses shall be written off a credit account 26 “General Economic Expenses” to a debit account 90.08. In accounting statements these expenses shall be included in line 2220 of form 2 of “Profit and Loss Statement”.

4.20.13 Selling expenses shall be included in full in the prime cost of rendered services, performed works in its entirety in the reporting year when they were recognized as expenses on usual kinds of activities.

4.20.14 For accounting purposes, the value and the time of recognition of miscellaneous expenses is determined in the following order:

the amount of the costs associated with sale, retirement and other write-off of fixed assets and assets other than cash (save for foreign currency), goods, as well as participation in the authorized capitals of other organizations for the provision of temporary use rights, arising from patents for inventions,

industrial designs and other intellectual property, as well as expenses related to the cost of services provided by credit institutions shall be determined in a manner similar to that envisaged for the recognition of expenses on ordinary activities;

interest expenses paid by the Company for the use of cash are recognized uniformly (monthly) during the period of use of borrowed funds, regardless of the date of actual payment;

finances and penalties for breach of contract and compensation for damages to the Company are accounted in the adjudged by the court or recognized by the Company;

receivables for which the limitation period has expired, other debts which are unlikely to be recovered, are included in the Company's expenses in the amount in which the debt was recorded in the accounting records of the Company;

other expenses in the sum of write-down of assets by the results of the revaluation of financial investments for which market value is determined in accounting are recorded on a quarterly basis;

interest expenses are accrued monthly (irrespective of the date of actual payment) on the basis of the interest rate established by the contract and the number of days of using borrowed funds in the reporting period.

4.20.15 The norms of natural loss for accounting purposes shall be approved by the regulation of the Head of the Company or by a person authorized by him/her within the figures stipulated by the normative documents of the Federal executive body.

4.20.16 Other expenses for management accounting (tariffs formation, etc.) are distributed for geographical segment (territorial subjects at which the tariffs are formed) in accordance with method determined by the Company.

4.21 PROFIT TAX CALCULATION

4.21.1 Producing of information about profit tax accounts in accounting statements and the procedure for disclosure of information about profit tax accounts in accounting statements shall be specified in accordance with Accounting Regulations 18/02 "Recording of Profit Tax Accounts".

4.21.2 The difference between accounting profit (loss) and taxable income (loss) of reporting year made as a result of applying different rules of profit and loss recognition which are stipulated by regulatory legal acts on accounting and by the RF legislation on taxes-and-duties shall consist of permanent and temporary differences.

4.21.3 Information on permanent and temporary differences subject to being

entered in the accounts shall be produced on the basis of basic accounting documents and tax ledgers. In analytical accounting temporary differences shall be recorded differentially according to the types of assets and liabilities in the evaluation of which temporary difference has occurred.

4.21.4 Permanent differences (PD) shall be regarded as receipts and expenditures that:

generate accounting profit (loss) of the reporting year and are excluded from the tax base computation of the reporting period as well as of the following period and lead to occurrence of permanent tax liability (PTL) which is calculated as the product of permanent difference that has occurred in the reporting period and profit tax rate of the reporting period;

are recorded when calculating the tax base on tax profit of the reporting period, but are not recognized for accounting purposes of reporting period as well as of ensuing reporting periods and result in formation of permanent tax asset (PTA) which is calculated as the product of permanent difference that has occurred in the reporting period and profit tax rate of the reporting period.

4.21.5 Recording of permanent tax differences shall be kept from above, by an accounting department of the Company`s executive bodies on the basis of data of tax ledgers that are submitted by the Company`s branches quarterly.

4.21.6 Temporary differences (TD) - receipts and expenditures generating accounting profit (loss) in one reporting period and the profit tax base – in the other or some other tax periods.

4.21.7 Temporary differences depending on the character of their influence on taxable profit shall be subdivided into:

deductible temporary differences (DTD) which lead to the formation of deferred tax asset (DTA) reducing the tax profit that is to be paid at the budget during the ensuing reporting periods;

taxable temporary differences (TTD) which lead to the formation of deferred tax liability (DTL) increasing the tax profit that is to be paid during the ensuing reporting periods.

4.21.8 Accounting of deferred tax liabilities and deferred tax assets shall be carried out by the executive bodies and Company`s branches in relation to each accounting item. Temporary differences formed during the reporting period shall be accrued and recorded in the Company`s branches in the accounts 09 “Deferred Tax Assets” and 77 “Deferred Tax Liabilities” in a developed form in correspondence with the account 68 “Profit Tax Calculation”. At the end of each reporting period the data on the occurred temporary differences shall be submitted by the branches through the subaccount of account 79 “In-House Settlements” in correspondence with the account 68 “Profit Tax Calculation” to the Company`s executive bodies to compile the summary data on the Company and compute the profit tax of the Company in general, as well as in hard-copy form, signed by the chief accountant of a branch and an executive according to the form approved by the Company. The date of submitting the specified documents to the accounting department of the Company`s executive bodies shall be considered to be the date of record of receipt made by a corresponding specialist of an accounting department.

4.21.9 A detailed sum of a deferred tax asset and deferred tax liability shall be recorded in accounting statements.

4.21.10 The company determines the amount of current income tax based on the data generated in the accounting records in accordance with the Accounting Regulations 18/02: from the value of contingent expense (contingent income), adjusted by the amount of permanent tax liability (asset), increase or decrease the deferred tax asset and deferred tax liabilities of the reporting period.

Contingent income (expense) – is the amount of income tax determined on the basis of accounting profit (loss) and reflected in the accounting records, regardless of the amount of taxable income (loss).

The amount of current income tax corresponds to the amount of calculated tax expense recorded in the income tax return for the tax on profit for the period.

4.21.11 Records of tax profit calculations in accordance with Accounting Regulations 18/02 shall be maintained on the base of a software suite 1C: Enterprise and that is the reason why the Company has elaborated the chart of

accounts of tax accounting and set up hereof correspondence to the chart of accounts of business accounting. Business transactions included for accounting purposes shall be simultaneously recorded as tax accounting entries. Monthly reconciliation of data of account and tax ledgers shall be carried out to confirm the equality:

$$\text{data of Accounting} = \text{data of Tax accounting} + \text{Sum of permanent difference} + \text{Sum of temporarily difference.}$$

4.21.12 Branches submit the registers of tax accounting in forms established by the Company.

4.21 DISCLOSURE OF OFF-BALANCE SHEET ASSET AND LIABILITIES IN THE REPORT

4.22.1 Accounting of the following types of property which is temporarily in use or disposal by the Company (transferred for use or disposal), contingent rights and obligations is conducted in off-balance sheet accounts:

- leased assets (including leasing);
- inventory items accepted for safekeeping;
- materials accepted for processing;
- goods on commission;
- equipment accepted for installation;
- strict accounting forms;
- written off debts of insolvent debtors;
- securities received for obligations and payments;
- securities given for obligations and payments;
- depreciation of fixed assets;
- intangible assets acquired for use, if the conditions for the recognition of an asset as intangible asset are not met;
- fixed assets placed under the operational management ;
- plant and equipment in quantity registered in operation;
- tangibles operation.

4.22.2 The property is temporarily in use or disposal of the Company (transferred for use or disposal) is recorded on off-balance sheet accounts as of the date of actual receipt (disposals) to the Company.

4.22.3 Securities given (received) for obligations and payments) by the Company are accounted for off-balance sheet accounts as of the date of issue (receipt) in accordance with the terms of the contract.

4.22.4 insolvent debtors are recorded in off-balance accounting as of the date of writing off a loss of receivables due to insolvency of the debtor.

4.22.5 The annual financial statements (in the notes to the Balance Sheet and the financial results of the Company) are included additional performance indicators and explanation of off-balance items (if relevant). At the same time the information disclosed can be regarded as significant not only in terms of its valuation, but also the nature of its relationships with significant figures, disclosed in the balance sheet and income statement.