JSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF SOUTH
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Contents

ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report

To the Shareholders and Board of Directors

JSC Interregional Distribution Grid Company of South

We have audited the accompanying consolidated financial statements of JSC Interregional Distribution Grid Company of South (the "Company") (and its subsidiaries (the "Group")), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: JSC Interregional Distribution Grid Company of South.

Registered in the Unified State Register of Legal Entities on 28 June 2007 by Inspectorate of the Federal Tax Service of Leninsky district of Rostov-na-Donu, Registration No. 1076164009096, Certificate series 61 No. 005700952.

49 Bolshaya Sadovaya street, Rostov-na-Donu, Russia, 344002.

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

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

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories with a carrying amount of RUB 809,701 thousand as at 31 December 2010 because we were engaged as auditors of the Group only after that date. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the elements making up the consolidated statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2011. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2011 dated 14 May 2012 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Qualified Opinion

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

КПМГ
KPMG

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

ZAO KPMG

12 April 2013

Moscow, Russian Federation

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

(in thousands of Russian Rubles, unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue and government subsidies	7	24,286,292	23,193,767
Operating expenses	8	(21,810,816)	(24,676,827)
Other operating income	9	310,630	403,082
Results from operating activities		**2,786,106**	**(1,079,978)**
Finance income	11	24,897	26,650
Finance costs	11	(1,499,189)	(1,436,241)
Net finance costs		**(1,474,292)**	**(1,409,591)**
Profit/(loss) before income tax		**1,311,814**	**(2,489,569)**
Income tax (expense)/benefit	12	(320,400)	359,581
Profit/(loss) for the year		**991,414**	**(2,129,988)**
Other comprehensive (loss)/income			
Net change in fair value of available-for-sale financial assets		(14,444)	10,035
Income tax on other comprehensive income	16	2,271	(1,729)
Other comprehensive (loss)/income for the year, net of income tax		(12,173)	8,306
Total comprehensive income/(loss) for the year		979,241	(2,121,682)
Total comprehensive income/(loss) attributable to:			
Shareholders of the Company		979,241	(2,121,682)
Earnings/(loss) per share - basic and diluted (in Russian Rubles)	21	0.020	(0.043)

These consolidated financial statements were approved by management on 12 April 2013 and were signed on its behalf by:

General Director — V.F. Vashkevich

Chief Accountant — G.G. Savin

Ростовская область г. Ростов-на-Дону Открытое акционерное общество МЕЖРЕГИОНАЛЬНАЯ РАСПРЕДЕЛИТЕЛЬНАЯ СЕТЕВАЯ КОМПАНИЯ ЮГА МРСК ЮГА ИНН 6164266561 ОГРН 1076164009096 Российская Федерация

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 42.

(in thousands of Russian Rubles, unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	13	24,688,519	22,344,478
Intangible assets	14	534,141	607,221
Non-current accounts receivable and prepayments	18	348,401	789,562
Investments and financial assets	15	62,855	77,189
Deferred tax assets	16	13,954	400,041
Total non-current assets		**25,647,870**	**24,218,491**
Current assets			
Inventories	17	1,206,861	1,077,204
Income tax receivable		371,096	11,822
Current accounts receivable and prepayments	18	6,234,435	4,488,172
Cash and cash equivalents	19	1,749,396	1,421,286
Total current assets		**9,561,788**	**6,998,484**
TOTAL ASSETS		**35,209,658**	**31,216,975**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	4,981,110	4,981,110
Available-for-sale investments revaluation reserve		5,196	17,369
Retained earnings / (losses)		(408,586)	(1,400,000)
Total equity		**4,577,720**	**3,598,479**
Non-current liabilities			
Loans and borrowings	22	16,500,000	16,473,217
Trade and other accounts payable	25	91,436	128,025
Employee benefits	24	316,002	764,851
Financial lease liabilities	23	7,334	35,947
Deferred tax liabilities	16	85,455	2,811
Total non-current liabilities		**17,000,227**	**17,404,851**
Current liabilities			
Loans and borrowings	22	5,808,565	2,840,650
Trade and other accounts payable	25	7,439,451	6,379,351
Financial lease liabilities	23	6,652	7,308
Provisions	26	376,927	964,318
Income tax payable		116	22,018
Total current liabilities		**13,631,711**	**10,213,645**
Total liabilities		**30,631,938**	**27,618,496**
TOTAL EQUITY AND LIABILITIES		**35,209,658**	**31,216,975**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 42.

(in thousands of Russian Rubles, unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax		**1,311,814**	**(2,489,569)**
Adjustments for:			
Depreciation and amortization	8	2,597,632	2,561,259
(Reversal)/allowance for impairment of trade and other receivables	8	(3,420)	1,766,077
Finance costs	11	1,499,189	1,436,241
Finance income	11	(24,897)	(26,650)
Impairment of property, plant and equipment	8	90,012	86,400
Loss on disposal of property, plant and equipment	8	21,356	24,343
(Reversal)/accrual of provisions for legal claims	8	(512,991)	749,504
Other non-cash items		(67,931)	118,122
Operating profit before changes in working capital		**4,910,764**	**4,225,727**
Change in accounts receivable and prepayments		(1,515,710)	(401,973)
Change in finance assets related to employee benefits fund		3,059	64,499
Change in inventories		(77,394)	(258,402)
Change in trade and other accounts payable		1,165,916	(1,240,554)
Change in provisions		(74,400)	(313,111)
Change in employee benefits		(448,849)	166,265
Cash flows from operations before income tax paid		**3,963,386**	**2,242,451**
Income tax (paid)/returned		(469,643)	108,659
Net cash flows from operating activities		**3,493,743**	**2,351,110**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(4,461,043)	(4,496,613)
Acquisition of intangible assets		(22,988)	(379,435)
Proceeds from disposal of property, plant and equipment		17,235	7,907
Interest received		18,693	13,681
Net cash flows used in investing activities		**(4,448,103)**	**(4,854,460)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans and borrowings		5,207,678	17,088,458
Repayment of loans and borrowings		(2,458,761)	(11,714,794)
Interest paid		(1,437,177)	(1,758,496)
Dividends paid		-	(1,894)
Repayment of finance lease liabilities		(29,270)	(32,824)
Net cash flows from financing activities		**1,282,470**	**3,580,450**
Net increase in cash and cash equivalents		**328,110**	**1,077,100**
Cash and cash equivalents at the beginning of the year	19	**1,421,286**	**344,186**
Cash and cash equivalents at the end of the year	19	**1,749,396**	**1,421,286**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 42.

(in thousands of Russian Rubles, unless otherwise stated)

	Attributable to shareholders of the Company			
	Share capital	**Available-for-sale investments revaluation reserve**	**Retained earnings / (losses)**	**Total equity**
Balance at 1 January 2011	**4,981,110**	**9,063**	**729,988**	**5,720,161**
Loss for the year	-	-	(2,129,988)	(2,129,988)
Net change in fair value of available-for-sale financial assets	-	10,035	-	10,035
Income tax on other comprehensive income	-	(1,729)	-	(1,729)
Total comprehensive loss for the year	**-**	**8,306**	**(2,129,988)**	**(2,121,682)**
Balance at 31 December 2011	**4,981,110**	**17,369**	**(1,400,000)**	**3,598,479**
Balance at 1 January 2012	**4,981,110**	**17,369**	**(1,400,000)**	**3,598,479**
Profit for the year	-	-	991,414	991,414
Net change in fair value of available-for-sale financial assets	-	(14,444)	-	(14,444)
Income tax on other comprehensive income	-	2,271	-	2,271
Total comprehensive income for the year	**-**	**(12,173)**	**991,414**	**979,241**
Balance at 31 December 2012	**4,981,110**	**5,196**	**(408,586)**	**4,577,720**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 42.

1. THE GROUP AND ITS OPERATIONS

Background

Joint Stock Company "Interregional Distribution Grid Company of South" (hereinafter referred to as JSC "IDGC of South" or the "Company") was set up on 28 June 2007 on the basis of Resolution no. 192p of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES") dated 22 June 2007.

The Company's registered office is located at 49, Bolshaya Sadovaya Str., Rostov-na-Donu, Russia, 344002.

The Company's postal address is 327, Severnaya Str., Krasnodar, Russia, 350015.

As part of the reform process, a merger of the Company with the entities listed below was effected on 31 March 2008 in accordance with the Resolution no. 266 of the Board of Directors of RAO UES dated 30 November 2007 and Resolution no. 1795pr/b of the Board of Administration of RAO UES dated 25 December 2007: OJSC "Astrakhanenergo", OJSC "Kalmenergo", OJSC "Rostovenergo", OJSC "Volgogradenergo". The merger was effected through conversion of shares issued by the Company in exchange for shares in the merged entities. As a result of the merger, the above-mentioned entities ceased to exist as separate legal entities and the Company became their legal successor.

The subsidiaries of the Company are disclosed in Note 4.

The Company's and its subsidiaries' (together referred to as the "Group") principal activity is the transmission of electricity and the connection of customers to the electricity grids. The Group's business is a national monopoly which is under the pressure and support of the Russian government. The Government of the Russian Federation influences the Group's operations through setting transmission tariffs. The Group's tariffs are controlled by the Federal Service on Tariffs and the Regional Energy Commissions.

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred the shares in the Company to JSC Interregional Distribution Grid Company Holding (hereinafter – JSC "IDGC Holding"), a newly formed state-controlled entity.

As at 31 December 2012, the Government of the Russian Federation owned 56.58% of the voting shares and 7.01% of the preference shares of JSC "IDGC Holding" (31 December 2011: 55.95% of the voting ordinary shares and 7.01% of the preference shares), which in turn owned 51.66% of the Company (31 December 2011: 51.66%).

Business environment

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

2. BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; and property, plant and equipment that are measured at carrying amounts included in the consolidated IFRS financial statements of "IDGC Holding" as considered as deemed cost as part of adoption of IFRSs as at 1 January 2010.

Functional and presentation currency

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

Going concern

These consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2012 the Group had a net working capital deficit of RUB 4,069,923 thousand (as at 31 December 2011: RUB 3,215,162 thousand) primarily attributable to trade and other payables and current loans and borrowings.

The Group monitors the level of liquidity on a regular basis. Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 31 December 2012 the Group had no unused credit lines. During 2013 the Group plans to obtain long term bank loans amounted to RUB 5,550 million including RUB 3,350 million of credit lines in the first half of 2013. In April 2013 the loan in the amount of RUB 1,900 million obtained from OJSC "Nordea Bank will be directed for restructuring. Currently the Group is negotiating the prospective restructuring of promissory notes payable to OJCS "Federal Grid Company" in the amount of RUB 2,723 million with IDGC Holding and OJCS "Federal Grid Company of United energy system".

In May 2012 the Federal Tariff Service confirmed long-term parameters of RAB-tariffs in three of the Company's branches: Astrakhanenergo, Kalmenergo and Rostovenergo. These decisions are targeted at the following: preservation of the invested capital level which was considered under the transition to RAB, optimization of the profitability level and approval of the capital investment program to develop and ensure the regular supply of electricity to customers.

In order to increase the efficiency of working capital management the Group is focused on an increased collection of trade receivables, including reducing doubtful receivables. The Group approved a plan of measures to reduce outstanding receivables for electricity transmission and for the settlement of disputes with customers. The issues regarding collection of receivables are considered by the Management Board on a quarterly basis.

Management anticipates that any repayments of loans and borrowings and settlement of trade and other payables required will be met out of operating or financing cash flows. Therefore, management believes that there is no significant uncertainty regarding Group's ability to continue as going concern.

Use of estimates and judgements

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in Note 27 – allowance for impairment of trade and other receivables.

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

- Note 13 – property, plant and equipment
- Note 24 – employee benefits
- Note 26 – provisions
- Note 29 – contingencies.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

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

(iii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables

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

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

Available-for-sale financial assets

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

(ii) Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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

(c) Share capital

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

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Type of property, plant and equipment	**Useful lives (in years)**
Production buildings	5-60
Transmission network	4-70
Equipment for electricity transmission	5-40
Other	1-50

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

(e) Intangible assets

(i) Initial recognition

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

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

Type of intangible assets	**Useful lives (in years)**
Software	3-15
Licenses and certificates	3-5

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

(f) Leased assets

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

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

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Non-derivative financial assets

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

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

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

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Any subsequent recovery in the fair value of impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

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

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

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

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

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

(i) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

(iii) Other long-term employee benefits

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

(iv) Short-term benefits

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

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

(j) Provisions

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

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission recognised in profit or loss when the services are rendered based on the acts confirming the volume of electric energy distributed in accordance with agreements signed with customers. The act is compiled on the basis of a monthly report of electricity consumed (in terms of physical volumes) for each customer. The tariffs for energy transmission are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operation.

(ii) Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network. The terms, conditions and amounts of these fees are negotiated separately and are independent from fees generated by electricity transmission services. The tariffs for connection services are approved by the Federal Tariff Agency and Regional Energy Commission of each region of the Group's operations.

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

(iii) Other services

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

(l) Government subsidies

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

(m) Other expenses

(i) Lease payments

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

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

(n) Finance income and costs

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

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

(o) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

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

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

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

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

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

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

(p) Earnings per share

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

(q) Segment reporting

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

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

(r) Related parties

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

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

(s) New standards and Interpretations not yet adopted

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

The Group has not yet analysed the likely impact of the new Standards on its financial position or performance.

- IAS 19 (2011) *Employee Benefits.* The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively.

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

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

- *IFRS 12 Disclosure of Interests in Other Entities will be effec*tive for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the e*ffects of those interests on the entity's* financial position, financial performance and cash flows.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendments to IAS 3*2 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- *Various Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(in thousands of Russian Roubles, unless otherwise stated)

4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in the Russian Federation:

		Ownership, %	
Subsidiary	**Principal activity**	**31 December 2012**	**31 December 2011**
OJSC "Volgogradsetremont"	Repair service	100	100
OJSC "Predpriyatie selskogo khozyaystva im. A.A. Grechko"	Agriculture	100	100
OJSC "Predpriyatie selskogo khozyaystva "Sokolovskoye"	Agriculture	100	100
OJSC "Baza Otdykha "Energetik"	Recreation	100	100
OJSC "Energoservis Yuga"	Repair service	100	100
OJSC "Astrakhanelektrosetremont"	Repair service	-	100

In November 2012 OJSC "Astrakhanelektrosetremont" was closed. Net profit generated by this subsidiary in 2012 up to the date of closing amounted to RUB 2,920 thousand.

5. DETERMINATION OF FAIR VALUES

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

Investments in equity securities

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

Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

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

6. OPERATING SEGMENTS

The Group has four reportable segments representing branches of the Company, as described below. These are the Group's strategic business units. The strategic business units offer similar services representing transmission of electric power and connection services, and are managed separately. For each of the strategic business units, the Management Board, the Group's operating decision making body, reviews internal management reports.

"Others" include operations of the Group's subsidiaries and the Kubanenergo. None of them meets any of the quantitative thresholds for determining reportable segments in 2012 or 2011.

Unallocated items comprise corporate balances of the Company's headquarters which do not constitute an operating segment under IFRS 8.

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

Information about reportable segments as at and for the year ended 31 December 2012:

	Transmission					
	Astrakhanenergo	**Volgogradenergo**	**Kalmenergo**	**Rostovenergo**	**Others**	**Total**
Electricity transmission	3,519,301	7,905,095	579,238	9,359,010	-	21,362,644
Connection services	310,887	13,563	929,567	699,605	-	1,953,622
Other	20,058	32,696	14,102	45,225	99,216	230,500
Total revenue from external customers	**3,850,246**	**7,951,354**	**1,522,907**	**10,103,840**	**99,216**	**23,527,563**
Inter-segment revenue	-	669	-	112	18,422	19,203
Total reportable segment revenue	**3,850,246**	**7,952,023**	**1,522,907**	**10,103,952**	**117,638**	**23,546,766**
Reportable segment operating profit/(loss)	**710,383**	**1,636,837**	**497,826**	**(440,960)**	**(26,679)**	**2,377,407**
Finance income	-	-	-	1	275	276
Finance costs	(221,096)	(564,756)	(171,096)	(663,327)	(1,949)	(1,622,224)
Reportable segment profit/(loss) before income tax	**8,611**	**477,433**	**246,093**	**(1,743,131)**	**(35,255)**	**(1,046,249)**
Depreciation and amortisation	347,418	541,806	79,651	1,398,335	16,407	2,383,617
Reportable segment assets	**5,530,473**	**12,929,785**	**3,370,403**	**18,527,998**	**420,617**	**40,779,276**
Including property, plant and equipment	4,644,508	6,963,697	2,499,019	16,856,496	323,963	31,287,683
Reportable segment liabilities	**1,237,087**	**3,098,254**	**658,302**	**5,469,192**	**139,249**	**10,602,084**
Capital expenditures	**683,362**	**680,648**	**1,341,987**	**2,444,549**	**3,935**	**5,154,481**

(in thousands of Russian Roubles, unless otherwise stated)

Information about reportable segments as at and for the year ended 31 December 2011:

	Transmission					
	Astrakhanenergo	**Volgogradenergo**	**Kalmenergo**	**Rostovenergo**	**Others**	**Total**
Electricity transmission	3,688,036	7,709,694	596,437	10,693,937	-	22,688,104
Connection services	84,427	12,258	1,127,545	239,710	-	1,463,940
Other	21,833	77,105	12,844	53,343	115,202	280,327
Total revenue from external customers	**3,794,296**	**7,799,057**	**1,736,826**	**10,986,990**	**115,202**	**24,432,371**
Inter-segment revenue	-	938	-	-	20,551	21,489
Total reportable segment revenue	**3,794,296**	**7,799,995**	**1,736,826**	**10,986,990**	**135,753**	**24,453,860**
Reportable segment operating profit/(loss)	**860,446**	**1,518,556**	**975,006**	**920,697**	**(22,066)**	**4,252,639**
Finance income	-	-	-	690	-	690
Finance costs	(232,787)	(654,353)	(147,773)	(457,061)	-	(1,491,974)
Reportable segment profit/(loss) before income tax	**346,757**	**598,476**	**807,186**	**(404,514)**	**(39,243)**	**1,308,662**
Depreciation and amortisation	311,461	545,185	71,028	1,260,936	16,866	2,205,476
Reportable segment assets	**5,332,796**	**12,918,155**	**2,830,877**	**17,645,747**	**495,004**	**39,222,579**
Including property, plant and equipment	4,217,445	6,853,802	1,731,795	15,750,650	375,158	28,928,850
Reportable segment liabilities	**1,097,622**	**2,277,907**	**797,990**	**4,172,496**	**152,708**	**8,498,723**
Capital expenditures	**865,625**	**346,278**	**614,359**	**2,437,728**	**37,620**	**4,301,610**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of reportable segments revenue, profit/(loss) before income tax, assets and liabilities

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total revenue for reportable segments	**23,546,766**	**24,453,860**
Inter-segment revenue elimination	(19,203)	(21,489)
Adjustment on revenue from electricity transmission	(252,905)	(786,207)
Adjustment on revenue from connection services	941,073	(540,489)
Reclassification from other income	46,857	106,080
Cut-off adjustment	-	(29,167)
Unallocated	23,704	11,179
Revenues per Consolidated Statement of Comprehensive Income	**24,286,292**	**23,193,767**

Reconciliation of reportable segment (loss)/profit before income tax is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total (loss)/profit before income tax for reportable segments	**(1,046,249)**	**1,308,662**
Adjustments for financial lease	70,488	2,522
Adjustment for allowance for impairment of accounts receivable	1,746,007	(835,009)
Adjustment for depreciation of property, plant and equipment	89,733	(90,424)
Impairment losses on property, plant and equipment	(90,012)	(86,400)
Recognition of employee benefits	445,867	(259,328)
Discounting of financial instruments	2,930	(34,882)
Adjustment for accrual of provision for legal claims	1,832,310	(436,383)
Adjustment on revenue from electricity transmission	(252,905)	(786,207)
Adjustment on revenue from connection services	941,073	(540,489)
Cut-off adjustment	-	(29,167)
Reallocation of prior year income and expenses	-	139,764
Other adjustments	5,154	46,201
Unallocated	(2,432,582)	(888,429)
Profit/(loss) before income tax per Consolidated Statement of Comprehensive Income	**1,311,814**	**(2,489,569)**

Reconciliation of reportable segment total assets is presented below:

	31 December 2012	31 December 2011
Total assets for reportable segments	**40,779,276**	**39,222,579**
Inter-segment balances	(130,575)	(117,646)
Elimination of cost of investments in subsidiaries	(341,432)	(350,451)
Adjustment for net book value of property, plant and equipment	(6,946,274)	(6,929,518)
Recognition of financial assets related to employee benefit fund	53,972	56,953
Adjustment for allowance for impairment of accounts receivable	476,570	(2,269,828)
Adjustment for deferred tax	(197,535)	225,259
Adjustments for finance lease	(60,863)	(102,081)
Adjustments on trade and other receivables	(2,014,514)	(1,439,636)
Provision for obsolescence of inventories	(1,901)	(54,476)
Other	138,802	(115,328)
Unallocated	3,454,132	3,091,148
Total assets per Consolidated Statement of Financial Position	**35,209,658**	**31,216,975**

(in thousands of Russian Roubles, unless otherwise stated)

Reconciliation of reportable segment total liabilities is presented below:

	31 December 2012	31 December 2011
Total liabilities for reportable segments	**10,602,084**	**8,498,723**
Inter-segment balances	(130,575)	(117,646)
Employee benefits	316,002	764,851
Accrual of bonuses and unused vacation provision	236,364	234,384
Adjustment for accrual of provision for legal claims	(1,131,140)	964,318
Adjustment on advances received for connection services	(388,925)	637,776
Adjustment for deferred tax	(213,988)	(294,866)
Financial lease liabilities	13,985	43,255
Other	(52,381)	(50,925)
Unallocated	21,380,512	16,938,626
Total liabilities per Consolidated Statement of Financial Position	**30,631,938**	**27,618,496**

Revenues from government-related entities are reported by all segments of the Group. The information is disclosed in Note 30.

For the year ended 31 December 2012 the Group had three major customers - distribution companies in three regions of the Russian Federation with individual turnover over 10% of the total Group revenues. The total amounts of revenues for these major customers for the year ended 31 December 2012 were RUB 2,838,789 thousand (Astrakhanenergo), RUB 2,949,069 thousand (Volgogradenergo) and RUB 6,083,621 thousand (Rostovenergo) (for the year ended 31 December 2011: RUB 2,826,648 thousand (Astrakhanenergo), RUB 3,106,030 thousand (Volgogradenergo) and RUB 6,698,731 thousand (Rostovenergo)).

7. REVENUE AND GOVERNMENT SUBSIDIES

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	21,155,611	22,011,839
Connection services	2,890,808	923,020
Rent	48,488	61,456
Repairs and maintenance	19,399	26,937
Other	171,394	169,858
Total revenue	**24,285,700**	**23,193,110**
Government subsidies	592	657
Total	**24,286,292**	**23,193,767**

In 2012 the Group did not recognise revenue for the electricity transmission services provided to distribution companies in the total amount of RUB 571,105 thousand (in 2011: RUB 680,135 thousand) due to unresolved disagreements with these customers. These disagreements are currently being considered in court.

In 2012 the Group recognised revenue for electricity transmission services provided to distribution companies in the total amount of RUB 307,154 thousand related to the prior years disagreements which were resolved in favour of the Group.

(in thousands of Russian Roubles, unless otherwise stated)

8. OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	6,981,923	6,869,356
Personnel costs (Note 10)	5,312,435	5,661,270
Purchased electricity for compensation of technological losses	4,302,783	4,218,994
Depreciation and amortization	2,597,632	2,561,259
Raw materials and supplies	906,512	906,213
Technological connection services	256,599	-
Consulting, legal and audit services	234,435	205,180
Rent	202,252	210,137
Electricity and heat power for own needs	191,688	222,857
Repairs, maintenance and installation services	175,802	165,865
Managing services	158,887	158,884
Taxes other than income tax	128,945	131,728
Insurance	123,863	104,673
Impairment of property, plant and equipment	90,012	86,400
Telecommunication and information services	77,701	74,201
Travel allowance	73,457	77,534
Security services	71,519	62,424
State duties, fines and penalties	66,536	50,761
Social expenditures and charity expenses	38,770	23,779
Trainings	25,322	42,070
Loss on disposal of property, plant and equipment	21,356	24,343
Transportation	14,780	14,570
Pollution fee	558	16,259
(Reversal)/allowance for impairment of trade and other receivables	(3,420)	1,766,077
(Reversal)/accrual of provision for legal claims	(512,991)	749,504
Other	273,460	272,489
	21,810,816	**24,676,827**

9. OTHER OPERATING INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Fines and penalties	190,402	324,536
Trade and other payables written-off	15,891	4,080
Other	104,337	74,466
	310,630	**403,082**

10. PERSONNEL COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries, including change in bonus and unused vacation provisions	4,285,696	3,950,130
Payroll taxes	1,347,946	1,226,426
Expense in respect of post-employment defined benefit plan (Note 24)	(420,502)	261,289
Expense in respect of long-term service benefits provided (Note 24)	(2,997)	(1,961)
Other personnel costs	102,292	225,386
	5,312,435	**5,661,270**

In 2012 the average number of employees (including production and non-production employees) was 14,215 employees (2011: 14,561 employees).

(in thousands of Russian Roubles, unless otherwise stated)

11. FINANCE INCOME AND COSTS

	Year ended 31 December 2012	Year ended 31 December 2011
Finance income		
Interest income	18,693	13,681
Interest income on financial assets related to employee benefit fund	78	9,283
Effect of discounting of financial instruments	2,933	3,655
Dividend income on available-for-sale financial assets	10	31
Other	3,183	-
	24,897	**26,650**
Finance costs		
Interest expense on financial liabilities measured at amortised cost	1,490,075	1,375,816
Interest on finance lease liabilities	9,111	21,279
Effect of discounting of financial instruments	3	38,538
Other	-	608
	1,499,189	**1,436,241**

12. INCOME TAX

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax benefit/(expense)		
Current year	(784)	(341,805)
Over provided in prior years	151,386	207,297
	150,602	**(134,508)**
Deferred tax (expense)/benefit		
Origination and reversal of temporary differences	(471,002)	494,089
	(471,002)	**494,089**
	(320,400)	**359,581**

Reconciliation of effective tax rate:

	Year ended 31 December 2012	%	Year ended 31 December 2011	%
Profit/(loss) before income tax	**1,311,814**	**100**	**(2,489,569)**	**100**
Income tax at applicable tax rate	(262,363)	(20)	497,914	20
Effect of income taxed at lower rates	(3,810)	0	(5,066)	0
Non-deductible expenses	(205,613)	(16)	(340,564)	(14)
Over provided in prior years	151,386	12	207,297	8
	(320,400)	**(24)**	**359,581**	**14**

The Company' applicable tax rate is the income tax rate of 20% for Russian companies. However, subsidiaries in the agricultural sector are taxable at a rate of 6%.

In 2012 and 2011 income tax overprovided for prior periods mainly related to adjusted revenues for 2008-2009 in accordance with court decisions.

(in thousands of Russian Roubles, unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT

	Land and production buildings	Transmission network	Equipment for electricity transmission	Other	Construction in progress	Total
Cost/Deemed costs						
Balance as at 1 January 2011	**2,230,350**	**13,656,801**	**7,151,498**	**3,034,833**	**1,824,356**	**27,897,838**
Additions	117,675	189,143	184,434	471,551	3,846,983	4,809,786
Transfers	485,193	384,027	882,816	365,428	(2,117,464)	-
Disposals	(19,153)	(6,298)	(10,168)	(45,896)	(37,159)	(118,674)
Balance as at 31 December 2011	**2,814,065**	**14,223,673**	**8,208,580**	**3,825,916**	**3,516,716**	**32,588,950**
Balance as at 1 January 2012	**2,814,065**	**14,223,673**	**8,208,580**	**3,825,916**	**3,516,716**	**32,588,950**
Additions	61,647	85,259	95,158	427,470	4,304,674	4,974,208
Transfers	489,566	932,954	1,027,630	429,869	(2,880,019)	-
Disposals	(8,349)	(4,094)	(5,427)	(36,778)	(27,335)	(81,983)
Balance as at 31 December 2012	**3,356,929**	**15,237,792**	**9,325,941**	**4,646,477**	**4,914,036**	**37,481,175**
Depreciation and impairment losses						
Balance as at 1 January 2011	**(521,676)**	**(4,131,023)**	**(1,926,354)**	**(1,091,154)**	**(30,668)**	**(7,700,875)**
Charge for the year	(122,859)	(1,189,726)	(696,350)	(478,946)	-	(2,487,881)
Impairment loss	-	-	-	-	(86,400)	(86,400)
Disposals	1,366	4,515	5,553	19,250	-	30,684
Balance as at 31 December 2011	**(643,169)**	**(5,316,234)**	**(2,617,151)**	**(1,550,850)**	**(117,068)**	**(10,244,472)**
Balance as at 1 January 2012	**(643,169)**	**(5,316,234)**	**(2,617,151)**	**(1,550,850)**	**(117,068)**	**(10,244,472)**
Charge for the year	(152,667)	(1,152,681)	(682,831)	(513,385)	-	(2,501,564)
Impairment loss	(3,873)	(21,235)	(15,184)	(19)	(49,701)	(90,012)
Disposals	4,902	4,094	3,503	30,039	854	43,392
Balance as at 31 December 2012	**(794,807)**	**(6,486,056)**	**(3,311,663)**	**(2,034,215)**	**(165,915)**	**(12,792,656)**
Carrying amounts						
At 1 January 2011	**1,708,674**	**9,525,778**	**5,225,144**	**1,943,679**	**1,793,688**	**20,196,963**
At 31 December 2011	**2,170,896**	**8,907,439**	**5,591,429**	**2,275,066**	**3,399,648**	**22,344,478**
At 31 December 2012	**2,562,122**	**8,751,736**	**6,014,278**	**2,612,262**	**4,748,121**	**24,688,519**

(in thousands of Russian Roubles, unless otherwise stated)

As at 31 December 2012 construction in progress includes prepayments for property, plant and equipment of RUB 151,439 thousand (as at 31 December 2011: RUB 326,222 thousand), which are stated net of impairment provision of RUB 28,383 thousand (as at 31 December 2011: none).

As at 31 December 2012 there were no property, plant and equipment subject to a registered debenture to secure bank loans. At 31 December 2011 property, plant and equipment in a carrying amount of RUB 2,166 thousand were subject to a registered debenture to secure bank loans (Note 22).

The amount of capitalized interest for the year ended 31 December 2012 was RUB 184,242 thousand (2011: RUB 134,326 thousand). The capitalization rate for general purpose borrowings for the year ended 31 December 2012 was 8.66% (2011: 10.39%).

Leased plant and machinery

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

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

	31 December 2012	31 December 2011
Cost of finance leased assets	114,054	153,237
Accumulated depreciation	(42,587)	(37,333)
Net book value	**71,467**	**115,904**

Determination of recoverable amount of property plant and equipment

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

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

Each cash-generating unit is determined by the Group based on the geographical location of the Company's branches and subsidiaries which is the smallest identifiable group of assets that generates cash inflows that are independent of the cash inflows from other groups of assets. The following key assumptions were used in determining the recoverable amounts:

- cash flows were projected based on actual operating results for 2012 and Company's business plan for 2013. Cash flows for the period 2014-2022 were forecast as follows:
  - distribution tariffs were estimated using a limitation of tariffs growth rate of 10% for the period from 2013 to 2017 in accordance with the level of annual growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation #1178 as of 29 December 2011; distribution tariffs from 2018 (for Volgogradenergo operating segment from 2019) estimated based on the amount of gross revenue determined in accordance with RAB-methodology; the growth of distribution tariffs for 2018 for Volgogradenergo operating segment was set 6.4% in accordance with forecast of the Ministry of Economic Development and Trade;
  - forecasted transmission volumes were determined based on the Company's annual business plan for 2013 and the Company's expectations for useful supply volume in 2014 after two new pumping stations would be launched in Kalmenergo operating segment. The level of production in the future forecast periods was fixed at 2014 year level;
- operating costs were assumed to increase in line with consumer price index;
- the cash flow forecasts were discounted to their present value at the nominal pre-tax cost of capital of 15.67%;
- terminal growth rate of the net cash flows was expected at the level of 3.2% in the post-forecasted period.

As at 31 December 2012 as a result of impairment testing the Group recognised impairment losses of RUB 90,012 thousand on property, plant and equipment of Kalmenergo operating segment (Note 6).

An increase of one percentage point in the discount rate used would have caused the recognition of impairment losses of RUB 277,012 thousand (Kalmenergo operating segment).

(in thousands of Russian Roubles, unless otherwise stated)

A decrease of one percentage point in total revenue annually would have caused the recognition of impairment losses of RUB 201,620 thousand (Kalmenergo operating segment).

An increase of one percentage point in operating expenses annually would have caused the recognition of impairment losses of RUB 182,165 thousand (Kalmenergo operating segment).

14. INTANGIBLE ASSETS

	Software	Certificates and licenses	Total
Cost			
Balance as at 1 January 2011	**397,548**	**239,506**	**637,054**
Additions	377,788	1,647	379,435
Balance as at 31 December 2011	**775,336**	**241,153**	**1,016,489**
Balance as at 1 January 2012	**775,336**	**241,153**	**1,016,489**
Additions	18,050	4,938	22,988
Balance as at 31 December 2012	**793,386**	**246,091**	**1,039,477**
Amortisation			
Balance as at 1 January 2011	**(125,120)**	**(210,770)**	**(335,890)**
Charge for the year	(64,893)	(8,485)	(73,378)
Balance as at 31 December 2011	**(190,013)**	**(219,255)**	**(409,268)**
Balance as at 1 January 2012	**(190,013)**	**(219,255)**	**(409,268)**
Charge for the year	(94,593)	(1,475)	(96,068)
Balance as at 31 December 2012	**(284,606)**	**(220,730)**	**(505,336)**
Carrying amounts			
At 1 January 2011	**272,428**	**28,736**	**301,164**
As at 31 December 2011	**585,323**	**21,898**	**607,221**
As at 31 December 2012	**508,780**	**25,361**	**534,141**

15. INVESTMENTS AND FINANCIAL ASSETS

	31 December 2012	31 December 2011
Non-current		
Available-for-sale investments	8,883	20,236
Financial assets related to employee benefit fund	53,972	56,953
	62,855	**77,189**

Available-for-sale investments are represented by marketable securities stated at fair value (level 1 in a fair value hierarchy).

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

For more detailed information concerning the Group's exposure to credit risks to investments and financial assets refer to Note 27.

(in thousands of Russian Roubles, unless otherwise stated)

16. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
Property, plant and equipment	564	387	(757,971)	(865,141)	(757,407)	(864,754)
Trade and other receivables and prepayments	630,521	733,411	-	-	630,521	733,411
Employee benefits	12,398	86,741	-	-	12,398	86,741
Trade and other payables and provisions	77,208	405,423	(42,811)	-	34,397	405,423
Other	18,994	48,438	(10,404)	(12,029)	8,590	36,409
Deferred tax assets/(liabilities)	**739,685**	**1,274,400**	**(811,186)**	**(877,170)**	**(71,501)**	**397,230**
Set-off	(725,731)	(874,359)	725,731	**874,359**	-	-
Net deferred tax assets/(liabilities)	**13,954**	**400,041**	**(85,455)**	**(2,811)**	**(71,501)**	**397,230**

Movements in temporary differences during the year

	31 December 2012	**Recognised in profit or loss**	**Recognised in other comprehensive loss**	**31 December 2011**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**1 January 2011**
Property, plant and equipment	(757,407)	107,347	-	(864,754)	164,752	-	(1,029,506)
Trade and other receivables and prepayments	630,521	(102,890)	-	733,411	324,630	-	408,781
Employee benefits	12,398	(74,343)	-	86,741	33,328	-	53,413
Trade and other payables and provisions	34,397	(371,026)	-	405,423	216,101	-	189,322
Tax loss carry-forwards	-	-	-	-	(229,118)	-	229,118
Other	8,590	(30,090)	2,271	36,409	(15,604)	(1,729)	53,742
Net tax assets/(liabilities)	**(71,501)**	**(471,002)**	**2,271**	**397,230**	**494,089**	**(1,729)**	**(95,130)**

(in thousands of Russian Roubles, unless otherwise stated)

17. INVENTORIES

	31 December 2012	31 December 2011
Raw materials and consumables	1,135,879	1,035,747
Fuel	1,007	-
Finished goods and goods for resale	44,153	47,659
Other inventories	27,723	48,274
Allowance for obsolescence of inventories	(1,901)	(54,476)
	1,206,861	**1,077,204**

As at 31 December 2012 and 2011 no inventories were pledged under the bank loan agreements.

18. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December 2012	31 December 2011
Non-current		
Trade receivables	11,968	25,899
Other receivables	2,412	3,758
Subtotal financial assets	**14,380**	**29,657**
Prepayments	334,021	759,905
	348,401	**789,562**
Current		
Trade receivables	7,637,795	6,465,815
Trade receivables impairment allowance	(2,962,555)	(3,418,562)
Other receivables	856,396	735,321
Other receivables impairment allowance	(721,632)	(590,832)
Promissory notes	-	3,908
Subtotal financial assets	**4,810,004**	**3,195,650**
Prepayments	239,505	490,513
Prepayments impairment allowance	(8,708)	(54,545)
VAT recoverable	265,065	82,133
VAT on advances received	227,950	427,800
VAT prepaid	295,131	14,520
Other taxes prepaid	7,919	22,597
Other current assets	397,569	309,504
	6,234,435	**4,488,172**

The Group’s exposure to credit risk and impairment losses related to trade and other receivables are disclosed in Note 27.

19. CASH AND CASH EQUIVALENTS

	31 December 2012	31 December 2011
Cash at bank and in hand	1,749,396	1,421,108
Cash equivalents	-	178
	1,749,396	**1,421,286**

All cash and cash equivalents are denominated in RUB.

During 2012 the Group performed non-cash settlements offsetting of trade and other accounts receivables and payables with different counterparties for RUB 492,156 thousand (2011: RUB 826,335 thousand).

(in thousands of Russian Roubles, unless otherwise stated)

20. EQUITY

Share capital

As at 31 December 2012 authorised and fully paid issued share capital comprised 49,811,096,064 ordinary shares (as at 31 December 2011: 49,811,096,064). All shares have a par value of RUB 0.1.

Retained earnings and dividends

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

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

As at 31 December 2012 and up to the date of approval of the consolidated financial statements the Group declared no dividends for 2012 and 2011.

21. EARNINGS/(LOSS) PER SHARE

	Year ended 31 December 2012	**Year ended 31 December 2011**
Weighted average number of ordinary shares for the year ended 31 December (thousand of shares)	49,811,096	49,811,096
Profit/(loss) attributable to the shareholders of the Company	991,414	(2,129,988)
Earnings/(loss) per share - basic and diluted (in RUB)	**0.020**	**(0.043)**

22. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and liquidity risks, refer to Note 27.

	31 December 2012	**31 December 2011**
Non-current debt		
Secured bank loans	-	1,083
Unsecured bank loans	14,342,322	9,192,322
Unsecured bonds issued	4,557,678	4,557,678
Promissory notes	3,035,900	3,035,900
	21,935,900	**16,786,983**
Less current portion of non-current debt	(5,435,900)	(313,766)
	16,500,000	**16,473,217**
Current debt		
Unsecured bank loans	2,548	2,401,801
Interest on bonds issued	126,442	124,419
Interest on promissory notes	243,675	664
Current portion of non-current debt	5,435,900	313,766
	5,808,565	**2,840,650**

(in thousands of Russian Roubles, unless otherwise stated)

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

Non-current debt

	Effective interest rate			31 December 2012		31 December 2011	
Name of lender	**31 December 2012**	**31 December 2011**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loans							
OJSC "Russian Agricultural Bank"*	-	14.00%	2012	-	-	1,083	1,083
				-	**-**	**1,083**	**1,083**
Unsecured bank loans							
OJSC "Sberbank"*	8.90%	7.60%	2014	1,000,000	1,000,000	1,000,000	1,000,000
OJSC "Sberbank"*	8.83-8.90%	7.60-8.10%	2013-2016	7,137,622	7,137,622	6,292,322	6,292,322
OJSC "Nordea Bank"	9.13%	7.98%	2013	1,900,000	1,900,000	1,900,000	1,900,000
OJSC "Sberbank"*	9.98-11.20%	-	2015	4,304,700	4,304,700	-	-
				14,342,322	**14,342,322**	**9,192,322**	**9,192,322**
Unsecured bonds issued	8.10%	8.10-17.50%	2014	4,557,678	4,557,678	4,557,678	4,557,678
*Promissory notes***	Interest free	Interest free	2013	312,900	312,900	312,900	312,900
*Promissory notes**	8.90%	8.90%	2013	2,723,000	2,723,000	2,723,000	2,723,000
				21,935,900	**21,935,900**	**16,786,983**	**16,786,983**
Less current portion of non-current debt				(5,435,900)	(5,435,900)	(313,766)	(313,766)
				16,500,000	**16,500,000**	**16,473,217**	**16,473,217**

Current debt and current portion of non-current debt

	Effective interest rate			31 December 2012		31 December 2011	
Name of lender	**31 December 2012**	**31 December 2011**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank loans							
OJSC "Sberbank"*	-	7.55%	2012	-	-	2,400,000	2,400,000
				-	**-**	**2,400,000**	**2,400,000**
Interest on bank loans			2012-2013	2,548	2,548	1,801	1,801
Interest on promissory notes**			2012-2013	243,675	243,675	664	664
Interest on bonds issued	8.10%	8.10-17.50%	2012-2013	126,442	126,442	124,419	124,419
				372,665	**372,665**	**126,884**	**126,884**
Current portion of non-current debt				5,435,900	5,435,900	313,766	313,766
				5,808,565	**5,808,565**	**2 840,650**	**2,840,650**

*- Promissory notes and loans from government-related entities
**- Promissory notes payable to the parent company

All loans and borrowings of the Group are denominated in RUB.

As at 31 December 2012 there were no bank loans secured over property, plant and equipment (Note 13) (31 December 2011: bank loans with OJSC "Russian Agricultural Bank" for the amount of RUB 1,083 thousand were secured over property, plant and equipment).

In August 2009 the Company placed 6,000 nonconvertible interest bearing RUB 1,000 nominal value bonds in the total amount of RUB 6,000 million, due in 2014. The bonds have 10 coupon periods of 182 days each. The coupon yield for the first period was determined upon the issuance and amounted to 17.50% per annum. The interest rate for the next coupon periods is determined by the issuer. The interest rate for the second to the fourth coupon periods was set as equal to that of the first period. In 2011, bonds in the amount of RUB 2,113 million were redeemed on the second date of the fifth coupon period in accordance with the option determined by the issuer. The interest rate for the fifth to the tenth coupon periods was set by the issuer and made public 10 days before the respective coupon period started and amounted to 8.10%.

(in thousands of Russian Roubles, unless otherwise stated)

23. FINANCIAL LEASE LIABILITIES

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

	31 December 2012			31 December 2011		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	9,980	(3,328)	6,652	16,419	(9,111)	7,308
Between one and five years	7,523	(189)	7,334	39,465	(3,518)	35,947
	17,503	**(3,517)**	**13,986**	**55,884**	**(12,629)**	**43,255**

All leases are denominated in RUB. The Group's obligations under financial lease are secured by the lessors' title to the leased assets. The fair value of the financial lease liabilities is approximately equal to their carrying amount.

The net book value of leased property, plant and equipment is disclosed in Note 13.

24. EMPLOYEE BENEFITS

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

Net liability of the defined benefit obligations are as follows:

	31 December 2012		31 December 2011	
	Post-employment benefits	**Other long-term benefits**	**Post-employment benefits**	**Other long-term benefits**
Present value of funded defined benefit obligations	455,072	20,117	1,060,301	24,432
Unrecognised actuarial losses	(72,268)	-	(47)	-
Unrecognised past service cost	(86,919)	-	(319,835)	-
	295,885	**20,117**	**740,419**	**24,432**

The amounts recognised in profit or loss are as follows:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Post-employment benefits	**Other long-term benefits**	**Post-employment benefits**	**Other long-term benefits**
Current service cost	57,388	1,528	67,538	2,522
Interest expense	87,900	1,619	101,509	2,249
Recognised actuarial (gains)/losses	-	(553)	24,186	(6,732)
Recognised past service cost	70,672	-	68,056	-
Curtailment	(636,462)	(5,591)	-	-
	(420,502)	**(2,997)**	**261,289**	**(1,961)**

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

(in thousands of Russian Roubles, unless otherwise stated)

Present value of the benefit obligations are as follows:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Post-employment benefits	**Other long-term benefits**	**Post-employment benefits**	**Other long-term benefits**
Defined benefit obligations as at 1 January	1,060,301	24,432	1,281,164	27,315
Benefits paid	(24,032)	(1,318)	(92,141)	(922)
Current service cost	57,388	1,528	67,538	2,522
Interest expense	87,900	1,619	101,509	2,249
Recognised actuarial losses/(gains)	225,782	(553)	(345,746)	(6,732)
Past service cost	14,706	-	47,977	-
Curtailment	(966,973)	(5,591)	-	-
	455,072	**20,117**	**1,060,301**	**24,432**

In 2012 certain changes were incorporated into the local acts regulating pension plans and other long-term benefits to the employees of the Company resulting in significant reduction of the employees' benefits which gave a curtailment in the total amount of RUB 972,564 thousand.

The main changes were the following:

- according to the approved Statement on private pension plan the basic substitution ratio of a pension benefit to monthly average employee salary decreased from 20% to 5%;
- the Company's branches entered into the joint Collective agreement according to which individual employee benefits will be less than it was stipulated by separate Collective agreements of branches effective at 31 December 2011.

Net benefit obligations are as follows:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Post-employment benefits	**Other long-term benefits**	**Post-employment benefits**	**Other long-term benefits**
Net defined benefit obligations as at the beginning of the period	740,419	24,432	571,271	27,315
Net expenses for the period	(420,502)	(2,997)	261,289	(1,961)
Benefits paid	(24,032)	(1,318)	(92,141)	(922)
	295,885	**20,117**	**740,419**	**24,432**

Principal actuarial assumptions:

	Year ended 31 December 2012	**Year ended 31 December 2011**
Discount rate	7.10%	8.50%
Salary increase	5.00%	5.50%
Inflation rate	5.00%	5.50%

(in thousands of Russian Roubles, unless otherwise stated)

25. TRADE AND OTHER ACCOUNTS PAYABLE

	31 December 2012	31 December 2011
Non-current		
Trade payables	-	4,715
Advances received	91,436	123,310
	91,436	**128,025**
Current		
Trade payables	5,093,880	2,989,958
Other payables	305,822	280,213
Payables to employees	423,677	627,621
Advances received	1,276,243	2,322,274
	7,099,622	**6,220,066**
Taxes payable		
VAT	3,241	3,397
Property tax	24,293	21,351
Payments to social funds	106,563	85,110
Personal income tax	3,486	41,610
Other taxes payable	202,246	7,817
	339,829	**159,285**
	7,439,451	**6,379,351**

The Group's exposure to liquidity risk related to trade and other payables is disclosed in Note 27.

Payables to employees are represented as follows:

	31 December 2012	31 December 2011
Salaries and wages payable	12,641	193,588
Unused vacation provision	174,672	199,649
Annual bonus provision	236,364	234,384
	423,677	**627,621**

26. PROVISIONS

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at 1 January	964,318	527,925
Provisions raised during the year	81,377	749,504
Provisions reversed during the year	(594,368)	-
Provisions used during the year	(74,400)	(313,111)
Balance at 31 December	**376,927**	**964,318**

Provisions relate to the legal proceedings against the Group and unsettled disagreements with distribution companies regarding purchased electricity for compensation of technological losses.

The Group recognizes a provision for unsettled disagreements if it considers that it is probable that a related outflow will take place. For unsettled disagreements regarding purchased electricity for compensation of technological losses in the amount of RUB 1,888,961 thousand (as at 31 December 2011: RUB 2,280,345 thousand) the Group did not recognise a provision as it believes that disagreements will be settled in favour of the Group.

As at 31 December 2011 a provision of RUB 588,682 thousand was made in respect of unresolved disagreements concerning revenue recognition for electric power transmission services provided via leased "last-mile" grids. As at 31 December 2012 that provision was reversed based on management's assessment that the outflow of resources would not be probable (refer to Note 29).

(in thousands of Russian Roubles, unless otherwise stated)

27. FINANCIAL RISK MANAGEMENT

Overview

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

- credit risk
- liquidity risk
- market risk.

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

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

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

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

Credit risk

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

Trade and other receivables

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

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

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

Exposure to credit risk

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

	Carrying amount	
	31 December 2012	**31 December 2011**
Trade and other receivables	4,824,384	3,225,307
Cash and cash equivalents	1,749,396	1,421,286
Financial assets related to employee benefit fund	53,972	56,953
	6,627,795	**4,703,546**

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

	Carrying amount	
	31 December 2012	**31 December 2011**
Electricity transmission customers	4,484,737	2,964,182
Connection services customers	87,743	18,919
Other customers	114,728	90,051
	4,687,208	**3,073,152**

(in thousands of Russian Roubles, unless otherwise stated)

The Group's four most significant customers account for RUB 4,003,832 thousand of the trade receivables carrying amount at 31 December 2012 (31 December 2011: RUB 2,617,723 thousand).

Impairment losses

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

	31 December 2012		31 December 2011	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	1,198,812	(35,559)	1,020,795	(30,829)
Past due less than 90 days	1,075,937	(47,731)	1,565,280	(394,500)
Past due 90 – 180 days	849,508	(12,693)	755,008	(312,670)
Past due 180 – 365 days	1,910,477	(197,324)	976,130	(355,670)
Past due more than 1 year	3,473,837	(3,390,880)	2,917,488	(2,915,725)
	8,508,571	**(3,684,187)**	**7,234,701**	**(4,009,394)**

Increase of overdue trade receivables related mainly to delay in payments by the distribution company in Volgograd region. As at 31 December 2012 gross trade receivables from this customer were RUB 3,050,282 thousand (31 December 2011:RUB 2,106,028 thousand), allowance for impairment - RUB 269,804 thousand (31 December 2011: no allowance for impairment was accrued). The delay in payments was due to existence of unresolved disagreements regarding purchased electricity for compensation of technological losses (refer to Note 26). The Group believes that the unimpaired overdue amounts are collectible and no allowance for impairment should be accrued.

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

	Year ended 31 December 2012	**Year ended 31 December 2011**
Balance at 1 January	4,009,394	2,277,964
Net increase/(reversal)	(3,420)	1,766,077
Amounts written off against trade receivables	(321,787)	(34,647)
Balance at 31 December	**3,684,187**	**4,009,394**

Liquidity risk

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

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

To manage the liquidity risk, the Group has negotiated credit lines with of a highly rated commercial banks. As at 31 December 2012 the Group had no unused credit lines (as at 31 December 2011: RUB 902,978 thousand).

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

	Carrying amount	**Contractual cash flows**	**0-1 years**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**
Non-derivative financial liabilities as at 31 December 2012							
Loans and borrowings	14,344,870	17,716,908	3,625,236	3,597,333	5,154,288	5,340,051	-
Bond issued	4,684,120	5,293,998	368,160	4,925,838	-	-	-
Promissory notes	3,279,575	3,361,165	3,361,165	-	-	-	-
Finance lease liabilities	13,986	17,503	9,980	7,523	-	-	-
Trade and other payables	5,399,702	5,399,702	5,399,702	-	-	-	-
	27,722,253	**31,789,276**	**12,764,243**	**8,530,694**	**5,154,288**	**5,340,051**	**-**

(in thousands of Russian Roubles, unless otherwise stated)

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities as at 31 December 2011							
Loans and borrowings	11,595,206	14,330,387	3,366,411	3,078,848	3,078,202	376,532	4,430,394
Bond issued	4,682,097	5,662,158	368,160	368,160	4,925,838	-	-
Promissory notes	3,036,564	3,399,753	556,575	2,843,178	-	-	-
Finance lease liabilities	43,255	55,884	16,419	31,942	7,523	-	-
Trade and other payables	3,274,886	3,274,886	3,270,171	4,715	-	-	-
	22,632,008	**26,723,068**	**7,577,736**	**6,326,843**	**8,011,563**	**376,532**	**4,430,394**

Financial guarantees are disclosed in Note 29.

Market risk

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

Interest rate risk

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

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

Fair value sensitivity analysis for fixed rate instruments

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

Fair values

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

The basis for determining fair value is disclosed in Note 5.

Capital management

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

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

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

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

(in thousands of Russian Roubles, unless otherwise stated)

28. OPERATING LEASE

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

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

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

Non-cancellable operating lease rentals under land lease agreements are payable as follows:

	31 December 2012	31 December 2011
Less than one year	192,064	174,957
Between one year and five years	617,000	637,594
More than five years	2,715,347	1,926,578
	3,524,411	**2,739,129**

During the current year RUB 202,252 thousand (2011: RUB 210,137 thousand) was recognised in profit or loss in respect of operating leases.

29. COMMITMENTS AND CONTINGENCIES

Capital commitments

According to the capital investment program, the amount of the Group's investment commitments for the next year is RUB 5,254 million as at 31 December 2012, net of VAT and prepayments for property, plant and equipment (as at 31 December 2011: RUB 4,973 million).

The Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 2,443,657 thousand as at 31 December 2012, net of VAT (as at 31 December 2011: RUB 1,056,319 thousand).

Insurance

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

Litigation

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

Taxation contingencies

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

(in thousands of Russian Roubles, unless otherwise stated)

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

Environmental matters

The Group and its predecessors have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group entities periodically evaluate their obligations under environmental regulations.

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

Guarantees

The Group issued financial guarantees for loans received by the lessors of the Group:

	Amount on contract	
	31 December 2012	**31 December 2011**
OJSC “Alpha Bank”	-	2,321

Other contingencies

The Group believes that the electricity services provided are in compliance with the Russian legislation regulating electric power transmission. However, based on the lack of elaboration of legislation that regulates the lease of Unified National (All-Russia) Electricity Network property (“last-mile”) the Company was the subject of a lawsuit for RUB 2,322,627 thousand concerning the legitimacy of the revenue recognition from the transmission of electricity via “last-mile” grids of 2009 and 2010.

The potential amount of other claims cannot be reliably estimated as each claim would have individual legal circumstances and respective estimation would be based on variety of assumptions and judgements, which makes it impracticable.

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

This position was also supported by the decision of the Supreme Arbitration Court of Russian Federation as at 12 March 2013 in a similar case of JSC IDGC of Urals.

(in thousands of Russian Roubles, unless otherwise stated)

30. RELATED PARTIES TRANSACTIONS

Control relationships

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

The Group's related party transactions are disclosed below.

Revenue

	Transaction value for the year ended 31 December		Outstanding balance	
	2012	**2011**	**31 December 2012**	**31 December 2011**
Parent company				
Managing services	838	-	32	-
Entities under common control of the parent				
Revenue from electricity transmission	342,227	343,646	26,628	29,812
Rent	14,295	12,833	22,242	13,090
Managing services	10,064	-	56,782	70,957
	367,424	**356,479**	**105,684**	**113,859**

Expenses

	Transaction value for the year ended 31 December		Outstanding balance	
	2012	**2011**	**31 December 2012**	**31 December 2011**
Parent company				
Managing services	158,887	158,884	18,748	9,374
Entities under common control of the parent				
Technological connection services	256,599	-	-	-
Purchased electricity for compensation of losses	124,941	147,533	-	-
Others	14,493	15,590	13,601	-
	554,920	**322,007**	**32,349**	**9,374**

Prepayments given

	Transaction value for the year ended 31 December		Outstanding balance	
	2012	**2011**	**31 December 2012**	**31 December 2011**
Entities under common control of the parent				
Technological connection services	302,786	329,616	26,830	329,616
Other	1,179	4,815	12,621	16,262
	303,965	**334,431**	**39,451**	**345,878**

(in thousands of Russian Roubles, unless otherwise stated)

Transactions with members of the Board of Directors and key management personnel

There are no transactions with members of the Board of Directors and other key management personnel except for remuneration in the form of salary and bonuses which were as follows:

	Year ended 31 December 2012		**Year ended 31 December 2011**	
	Board of Directors	**Other key Management Personnel**	**Board of Directors**	**Other key Management Personnel**
Salaries and bonuses	**28,184**	**138,482**	**30,362**	**55,589**

Transactions with government-related entities

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

Revenues from government-related entities for the year ended 31 December 2012 constitute 9% (for the year ended 31 December 2011: 10%) of the total Group revenues including 7% (for the year ended 31 December 2011: 10%) of electricity transmission revenues.

Electricity transmission costs from government-related entities for year ended 31 December 2012 constitute 50% (for the year ended 31 December 2011: 52%, of the total transmission costs.

Significant loans from government-related entities are disclosed in Note 22.

31. SUBSEQUENT EVENTS AFTER THE REPORTING DATE

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC “IDGC Holding” changes and additions were made to the Charter of JSC “IDGC Holding”, under which the Parent Company was renamed JSC “Russian Grids”. The relevant changes in Charter of JSC “IDGC Holding” were registered by Interdistrict Inspectorate of the Federal Tax Service of Russian Federation #46 on 4 April 2013.