OJSC MOESK

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 of OJSC MOESK

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

Astankovich T. N.

Deputy Director, (power of attorney dated 28 October, 2011 No. 46/11)

ZAO KPMG

22 April 2013

Moscow, Russian Federation

	Note	31 December 2012 '000 RUB	31 December 2011 '000 RUB
ASSETS			
Non-current assets			
Property, plant and equipment	12	226 647 139	205 734 239
Intangible assets	13	529 969	472 638
Non-current investments	14	621 674	560 737
Other non-current assets	15	10 716 267	14 008 820
Total non-current assets		**238 515 049**	**220 776 434**
Current assets			
Inventories	17	2 066 195	2 100 004
Income tax receivable		6 897	460 565
Trade and other receivables	18	20 126 489	22 101 928
Current investments	14	10 001	175 000
Cash and cash equivalents	19	8 331 910	3 944 875
Total current assets		**30 541 492**	**28 782 372**
Total assets		**269 056 541**	**249 558 806**

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 11 to 57.

	Note	31 December 2012 '000 RUB	31 December 2011 '000 RUB
EQUITY AND LIABILITIES			
Equity			
Share capital	20	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		97 428 538	79 494 344
Total equity attributable to the shareholders of OJSC MOESK		**140 362 972**	**122 428 778**
Non-controlling interest		231 468	484 455
Total equity		**140 594 440**	**122 913 233**
Non-current liabilities			
Loans and borrowings	22	50 037 170	39 966 562
Employee benefits	23	1 361 799	1 356 652
Deferred tax liabilities	16	10 126 092	7 782 408
Trade and other payables	25	9 344 524	22 470 975
Total non-current liabilities		**70 869 585**	**71 576 597**
Current liabilities			
Loans and borrowings	22	4 070 539	6 509 086
Income tax payable		434 716	-
Other taxes payable	26	990 629	113 090
Trade and other payables	25	48 923 947	47 458 435
Provisions	24	3 172 685	988 365
Total current liabilities		**57 592 516**	**55 068 976**
Total equity and liabilities		**269 056 541**	**249 558 806**

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

First Deputy General Director	Head of Department on Economics and Finance
A. V. Inozemtsev	V.V. Bragova

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 11 to 57.

	Note	2012 '000 RUB	2011 '000 RUB
Revenue	6	125 324 329	129 365 994
Operating expenses	7	(102 490 321)	(105 633 604)
Other operating income	9	3 351 607	1 377 347
Results from operating activities		**26 185 615**	**25 109 737**
Finance income	10	1 933 190	124 081
Finance costs	10	(2 722 281)	(1 789 226)
Profit before income tax		**25 396 524**	**23 444 592**
Income tax expense	11	(6 446 640)	(5 402 032)
Profit for the year		**18 949 884**	**18 042 560**
Total comprehensive income for the year		**18 949 884**	**18 042 560**
Profit and total comprehensive income attributable to:			
Shareholders of OJSC MOESK		18 960 643	17 947 766
Non-controlling interest		(10 759)	94 794
Basic and diluted earnings per ordinary share (in Russian Roubles)	21	**0.3893**	**0.3685**

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 11 to 57.

'000 RUB	Attributable to shareholders of the Group					
	Share capital	Additional paid in capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2011	**24 353 546**	**18 580 888**	**62 746 579**	**105 681 013**	**389 661**	**106 070 674**
Profit and total comprehensive income for the year	-	-	17 947 766	17 947 766	94 794	18 042 560
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to shareholders	-	-	(1 200 001)	(1 200 001)	-	(1 200 001)
Total contributions by and distributions to owners	-	-	(1 200 001)	(1 200 001)	-	(1 200 001)
Balance at 31 December 2011	**24 353 546**	**18 580 888**	**79 494 344**	**122 428 778**	**484 455**	**122 913 233**
Balance at 1 January 2012	**24 353 546**	**18 580 888**	**79 494 344**	**122 428 778**	**484 455**	**122 913 233**
Profit and total comprehensive income for the year	-	-	18 960 643	18 960 643	(10 759)	18 949 884
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to shareholders	-	-	(1 217 677)	(1 217 677)	-	(1 217 677)
Acquisition of non-controlling interest without a change in control	-	-	191 228	191 228	(242 228)	(51 000)
Total contributions by and distributions to owners	-	-	(1 026 449)	(1 026 449)	(242 228)	(1 268 677)
Balance at 31 December 2012	**24 353 546**	**18 580 888**	**97 428 538**	**140 362 972**	**231 468**	**140 594 440**

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 11 to 57.

	2012 '000 RUB	2011 '000 RUB
Cash flows from operating activities		
Profit before income tax	**25 396 524**	**23 444 592**
Adjustments for:		
Depreciation and amortisation	17 394 581	16 538 863
Loss/(gain) on disposal of property, plant and equipment	130 389	(122 266)
Impairment losses on property, plant and equipment	252 913	4 780
Provisions for legal claims	2 184 320	347 281
Finance income	(1 933 190)	(124 081)
Finance costs	2 722 281	1 789 226
Allowance for impairment of accounts receivable	2 857 450	3 637 112
Provision for inventory obsolescence	387 935	5 098
Loss/(gain) on disposal of inventory	32 863	(73 643)
Other non-cash items	(31 968)	(65 551)
Cash from operating activities before changes in working capital	**49 394 098**	**45 381 411**
Change in inventories	(403 804)	(356 795)
Change in trade and other receivables, non-current advances given for connection services	2 109 277	(1 807 859)
Change in retirement benefit obligations and related assets	(62 792)	(350 253)
Change in trade and other payables	(9 007 483)	(8 400 100)
Change in taxes payable, other than income tax	877 539	(650 291)
Cash flows from operations before income taxes	**42 906 835**	**33 816 113**
Income taxes paid	(3 214 572)	(4 391 486)
Net cash from operating activities	**39 692 263**	**29 424 627**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	5 671	5 608
Acquisition of property plant and equipment	(38 998 692)	(29 322 009)
Interest received	292 997	37 086
Acquisition of intangible assets	(167 535)	(447 640)
Purchase of investments	(52 791)	(50 000)
Proceeds from disposal of short-term investments	217 790	1 187
Net cash used in investing activities	**(38 702 560)**	**(29 775 768)**

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 11 to 57.

	2012	2011
	'000 RUB	**'000 RUB**
Cash flows from financing activities		
Proceeds from borrowings	21 316 640	42 596 456
Repayment of borrowings	(10 086 675)	(33 091 329)
Payment of finance lease liabilities	(2 537 943)	(4 025 077)
Dividends paid	(1 217 677)	(1 200 001)
Interest paid	(4 026 140)	(2 915 270)
Acquisition of non-controlling interests	(51 000)	-
Net cash from financing activities	**3 397 205**	**1 364 779**
Net increase in cash and cash equivalents	**4 386 908**	**1 013 638**
Cash and cash equivalents at beginning of year	3 944 875	2 931 237
Effect of exchange rate fluctuations on cash and cash equivalents	127	-
Cash and cash equivalents at end of year (Note 19)	**8 331 910**	**3 944 875**

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 11 to 57.

1 Background

(a) Organisation and operations

Open Joint-Stock Company Moskovskaya Ob'edinennaya Electrosetevaya Kompaniya (OJSC MOESK or the "Company") was established on 1 April 2005 by transference of assets and activities related to the electricity transmission of OJSC Mosenergo, a subsidiary of RAO UES of Russia, within the framework of Russian electricity sector restructuring in accordance with Resolution No. 1 adopted by shareholders of OJSC Mosenergo on 29 June 2004.

The Group's consolidated financial statements include the following subsidiaries:

- OJSC Moskabel'set'montaj (MKSM);
- OJSC Moskabel'energoremont (MKER);
- OJSC Repair of Electrical and Technical Equipment Plant (RETEP);
- OJSC Energocentr.

As at 31 December 2012 the Russian Government owned 54.52% of the voting ordinary shares and 7.01% of the preference shares of OJSC MRSK Holding, which in turn owned 50.9% of OJSC MOESK.

The Company's registered office and the actual address is at building 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

The Group's principal activity is electricity transmission by means of electrical networks located in Moscow and the Moscow Region. The Group also provides connection services as part of its core operations.

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

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

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

- Note 18 – Allowance for trade and other receivables;
- Note 23 – Employee benefits;
- Note 24 – Provisions;
- Note 27 – Financial risk management;
- Note 30 – Contingencies.

(e) Changes in accounting policies

There were no significant changes in accounting policies for 2012.

3 Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus

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

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

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

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Acquisitions from entities under common control

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

(v) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) 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 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 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 has the following non-derivative financial assets: held-to-maturity financial investments, loans and receivables, available-for-sale financial assets and cash and cash equivalents.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

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.

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 any of the previous categories. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, 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.

Cash and cash equivalents

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

(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.

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. 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.

(d) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is 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, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs.

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

- Buildings 20 to 40 years
- Transmission networks 18 years
- Transformers and transformer substations 13 to 16 years
- Other 4 to 8 years

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

(e) Intangible assets

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

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

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. The estimated useful lives for the current and comparative periods are 2 to 5 years.

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

(f) Leased assets

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

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

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, 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 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. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is 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 loans and receivables or held-to-maturity investment securities. 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.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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

(ii) Non-financial assets

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

The recoverable amount of an asset or a 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 a 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 a CGU.

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

(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. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

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

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

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

(iii) Other non-current employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is 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. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

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

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

(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.

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in profit or loss based on an act of services rendered containing the physical volume of electricity distributed or sold. The act is prepared based on a monthly report of electricity consumption (prepared in physical volumes) for each customer. The tariffs for electricity transmission on regulated market are approved by the government agencies of the constituents of the Russian Federation in the sphere of the state energy tariff regulation within the range of cap and/or floor tariffs approved by the Federal Service on Tariffs.

(ii) Connection services

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

Revenue is recognized in proportion to the stage of completion of technological connection.

(iii) Other services

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

(l) Other expenses

(i) Lease payments

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

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

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

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

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

(m) Finance income and costs

Finance income comprises interest income on cash balances, bank deposits and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, employee benefits and finance leases, foreign currency losses.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

(n) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

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 related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- 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.

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 deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. There are no dilutive potential ordinary shares.

(p) 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 Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

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

(q) New Standards and Interpretations not yet adopted

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

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

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

- IFRS 9 *Financial Instruments will be eff*ective 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 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet determined the potential effect of the amendment.

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

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

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Equity and debt securities

The fair value of available-for-sale financial assets and held-to-maturity investments is determined by reference to their quoted closing bid price at the reporting date. The fair value of investments in unquoted debt securities is determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of investments is determined for disclosure purposes only.

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

5 Operating segments

Operating segments are identified on the basis of internal reports on components of the Group that are reviewed each quarter by the Board of Directors, the chief operating decision maker, to allocate resources to a segment and assess its performance.

Management has determined the following reportable segments:

- Electricity transmission in Moscow;
- Electricity transmission in the Moscow region;
- Connection services in Moscow;
- Connection services in the Moscow region.

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment "other". None of these items meets any of the quantitative thresholds for determining reportable segments in 2012 or 2011.

The segment revenue and profit before income tax for the year ended 31 December 2012 are as follows:

'000 RUB	Electricity transmission	Connection services	Other	Total
Revenues				
External revenues	100 280 183	17 390 781	2 105 422	119 776 386
Moscow	49 689 780	11 966 115	1 901 241	63 557 136
Moscow Region	50 590 403	5 424 666	204 181	56 219 250
Inter-segment revenue	-	-	1 904 414	1 904 414
Moscow	-	-	1 703 174	1 703 174
Moscow Region	-	-	201 240	201 240
Depreciation and amortisation	16 686 572	71	56 524	16 743 167
Moscow	8 983 779	-	49 554	9 033 333
Moscow Region	7 702 793	71	6 970	7 709 834
Reportable segment operating results	11 424 870	14 044 037	324 615	25 793 522
Moscow	9 490 747	9 236 132	341 593	19 068 472
Moscow Region	1 934 123	4 807 905	(16 978)	6 725 050

Other material items are as follows:

'000 RUB	Reportable segment totals	Adjustments	Consolidated totals
Depreciation and amortisation	16 743 167	651 414	17 394 581
Capital expenditure	36 212 165	2 981 513	39 193 678
Impairment losses on property, plant and equipment	-	(252 864)	(252 864)
Income tax expense	(3 764 806)	(2 681 834)	(6 446 640)

The difference between external revenues and revenue reported in consolidated statement of comprehensive income for 2012 is due to recognition of income under agreements on compensation of losses as revenue from connection services.

Comparative segment revenue and profit before income tax for the year ended 31 December 2011 are as follows:

'000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	106 993 823	19 083 809	2 386 754	128 464 386
Moscow	58 194 650	13 133 792	2 211 887	73 540 329
Moscow Region	48 799 173	5 950 017	174 867	54 924 057
Inter-segment revenue	-	-	959 836	959 836
Moscow	-	-	750 226	750 226
Moscow Region	-	-	209 610	209 610
Depreciation and amortisation	15 199 962	124	54 419	15 254 505
Moscow	8 172 152	-	47 315	8 219 467
Moscow Region	7 027 810	124	7 104	7 035 038
Reportable segment operating results	10 088 034	15 139 075	487 215	25 714 324
Moscow	11 748 548	10 121 210	224 133	22 093 891
Moscow Region	(1 660 514)	5 017 865	263 082	3 620 433

Other material items are as follows:

'000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	15 254 505	1 284 358	16 538 863
Capital expenditure	29 707 247	2 896 792	32 604 039
Impairment losses on property, plant and equipment	-	4 780	4 780
Income tax expense	(4 919 810)	(482 222)	(5 402 032)

Reconciliation of reportable segment profit:

'000 RUB	**2012**	**2011**
Reportable segments profit	25 468 907	25 227 109
Other profit or loss	324 615	487 215
Unallocated	(4 836 905)	(3 547 161)
Total profit before income tax per Russian Accounting Standards	**20 956 617**	**22 167 163**
Borrowing costs capitalized	2 010 270	2 165 153
Expenses associated with leased property, plant and equipment	2 185 659	2 144 707
(Loss)/gain on disposal of property, plant and equipment	(311 038)	139 743
Depreciation and amortisation	(604 819)	(1 284 358)
Provision for legal claims	627 843	133 180
Provision for unused vacations and bonuses	3 829	772 764
Reversal/(allowance for impairment) of account receivable and advances for capital expenditure	29 065	(206 581)
Effect of loan discounting	462 854	-
Impairment loss on property, plant and equipment	(252 913)	(4 780)
Accrued expenses for connection services	(226 108)	(2 783 910)
Accrued employee benefits plan liabilities	(5 147)	292 622
Other items	520 412	(91 111)
Consolidated profit before income tax per IFRS	**25 396 524**	**23 444 592**

Segment operating results that are reported to the Board of Directors are determined based on the income and expenses calculated in accordance with Russian Accounting Standards. Segment operating results represent the profit earned by each segment without allocation of finance income and expenses and other income and expenses which are included in "unallocated" component.

Major customer

In 2012, revenue from one customer of the Group's electricity transmission segment represented approximately 70% (RUB 87 651 844 thousand) of the Group's total revenue (2011: 74%; RUB 95 428 157 thousand).

Segment assets are presented in the table below:

'000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2012					
Total assets	**239 613 393**	**31 139 311**	**3 407 159**	**24 950 777**	**299 110 640**
Moscow	155 230 650	21 424 141	2 802 857	-	179 457 648
Moscow Region	84 382 743	9 715 170	604 302	-	94 702 215
Unallocated	-	-	-	24 950 777	24 950 777
Capital expenditure	**36 094 600**	**68 744**	**48 821**	**-**	**36 212 165**
Moscow	23 905 600	-	48 094	-	23 953 694
Moscow Region	12 189 000	68 744	727	-	12 258 471
31 December 2011					
Total assets	**220 616 761**	**37 245 921**	**3 647 206**	**16 870 696**	**278 380 584**
Moscow	150 235 049	26 340 455	3 080 947	-	179 656 451
Moscow Region	70 381 712	10 905 466	566 259	-	81 853 437
Unallocated	-	-	-	16 870 696	16 870 696
Capital expenditure	**29 527 429**	**131 268**	**48 550**	**-**	**29 707 247**
Moscow	18 785 151	-	46 734	-	18 831 885
Moscow Region	10 742 278	131 268	1 816	-	10 875 362

Reconciliation of reportable segments assets:

’000 RUB	2012	2011
Reportable segments assets	270 752 704	257 862 682
Other assets	3 407 159	3 647 206
Unallocated	24 950 777	16 870 696
Total assets per Russian Accounting Standards	**299 110 640**	**278 380 584**
Net-off trade and other receivables and payables	(24 737)	(203 485)
Inventories	(3 034 095)	(1 854 750)
Advances given	(16 479 942)	(18 564 188)
Property, plant and equipment	(1 356 592)	(1 212 137)
Impairment losses on property, plant and equipment	(257 644)	(39 354)
Allowance for impairment of account receivable and advances for capital expenditure	(1 224 952)	(1 244 097)
Deferred tax assets	(2 064 078)	(1 348 436)
Other items	134 370	199 095
Eliminations	(5 746 429)	(4 554 426)
Consolidated assets per IFRS	**269 056 541**	**249 558 806**

Segment assets that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment assets represent the assets of each segment without allocation of VAT, cash and cash equivalents, inventory and investments, which are included in “unallocated” component.

Segment liabilities are presented in the table below:

’000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2012					
Total liabilities	**60 467 706**	**48 397 324**	**1 544 009**	**12 759 130**	**123 168 169**
Moscow	58 496 585	29 308 221	1 327 256	-	89 132 062
Moscow Region	1 971 121	19 089 103	216 753	-	21 276 977
Unallocated	-	-	-	12 759 130	12 759 130
31 December 2011					
Total liabilities	**52 180 495**	**55 627 690**	**1 971 206**	**8 631 132**	**118 410 523**
Moscow	49 193 725	35 852 162	1 822 477	-	86 868 364
Moscow Region	2 986 770	19 775 528	148 729	-	22 911 027
Unallocated	-	-	-	8 631 132	8 631 132

Reconciliation of reportable segments liabilities:

'000 RUB	2012	2011
Reportable segments liabilities	108 865 030	107 808 185
Other liabilities	1 544 009	1 971 206
Unallocated	12 759 130	8 631 132
Total liabilities per Russian Accounting Standards	**123 168 169**	**118 410 523**
Finance lease liabilities	1 137 613	2 920 814
Deferred tax liabilities	6 140 198	4 174 009
Employee benefits	1 361 799	1 356 652
Provision for legal claims	(119 939)	507 903
Effect of discounting	(467 931)	-
Net-off trade and other receivables and payables	(24 737)	(203 485)
Other items	(154 227)	(91 476)
Eliminations	(2 578 844)	(429 367)
Consolidated liabilities per IFRS	**128 462 101**	**126 645 573**

Segment liabilities that are reported to the Board of Directors are determined in accordance with Russian Accounting Standards. Segment liabilities represent the liabilities of each segment without allocation of VAT, deferred tax liabilities and deferred income, which are included in "unallocated" component.

6 Revenue

	2012	2011
	'000 RUB	'000 RUB
Electricity transmission	100 280 184	106 993 823
Revenue from connection services	22 930 260	19 999 236
Other revenue	2 113 885	2 372 935
	125 324 329	**129 365 994**

Revenue from connection services represents services related to connection of customers' power receivers to the electricity network of the Group.

Other revenue is comprised of installation services and technical maintenance of electrical equipment and rental income.

7 Operating expenses

	2012 '000 RUB	2011 '000 RUB
Electricity transmission	(45 570 875)	(54 130 898)
Depreciation and amortisation	(17 394 581)	(16 538 863)
Personnel costs	(15 124 821)	(14 496 574)
Rent	(1 335 664)	(2 264 658)
Repairs, maintenance and installation services	(3 191 205)	(3 798 275)
Connection services	(1 055 634)	-
Raw materials and supplies	(2 148 204)	(2 277 337)
Consulting, legal, audit services including professional training	(1 685 678)	(1 257 529)
Electricity count services	(394 302)	(423 722)
Insurance	(653 852)	(627 998)
Impairment losses on property, plant and equipment	(252 913)	(4 780)
Telecommunication services	(682 198)	(633 661)
Taxes other than income tax	(953 286)	(542 623)
Security services	(570 042)	(519 184)
Allowance for impairment of trade and other receivables, prepayments and non-current assets	(2 857 450)	(3 637 112)
Provision for legal claims	(2 184 320)	(347 281)
Transportation	(304 033)	(366 510)
Registration of rights to property	(1 377 472)	(572 129)
Provision for inventory obsolescence	(387 935)	(5 098)
Other expenses	(4 365 856)	(3 189 372)
	(102 490 321)	**(105 633 604)**

8 Personnel costs

	2012 '000 RUB	2011 '000 RUB
Salaries and wages	(11 776 657)	(11 940 773)
Contributions to State pension fund	(2 167 624)	(1 880 127)
Financial aid to employees and pensioners	(674 167)	(546 760)
Expenses in respect of post employment benefits – defined benefit plan	(456 898)	(539 249)
Expenses in respect of post employment benefits – defined contribution plan	(193 888)	(153 624)
Benefit in respect of long-term service benefits provided	144 413	563 959
	(15 124 821)	**(14 496 574)**

The average number of employees during the year was 15 998 (in 2011: 16 014).

9 Other operating income

	2012 '000 RUB	2011 '000 RUB
Other income	3 351 607	1 377 347
	3 351 607	**1 377 347**

10 Finance income and costs

	2012 '000 RUB	2011 '000 RUB
Finance income		
Interest income	1 444 972	124 081
Initial discount on recognition of financial liabilities	488 218	-
	1 933 190	**124 081**
Finance costs		
Interest on employee benefits obligation	(187 470)	(139 203)
Interest expense	(1 965 892)	(439 285)
Interest on finance lease	(543 555)	(1 210 738)
Unwinding of discount on financial liabilities	(25 364)	-
	(2 722 281)	**(1 789 226)**

11 Income tax expense

	2012	2011
	’000 RUB	**’000 RUB**
Current tax expense		
Current tax expense	(7 210 914)	(5 802 876)
Overprovided in prior periods	3 107 958	1 240 114
	(4 102 956)	**(4 562 762)**
Deferred tax		
Origination and reversal of temporary differences	839 079	444 734
Change in tax base of PPE	(3 182 763)	(1 284 004)
	(2 343 684)	**(839 270)**
Income tax charge	**(6 446 640)**	**(5 402 032)**

In 2012 the Group recalculated income tax for prior periods (2009-2011) related to the deductibility for tax purposes of certain amounts which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment. In 2011 a similar recalculation was carried out by the Group for the prior periods of (2007-2008).

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RUB 3 107 958 thousand (2011: RUB 1 240 114 thousand). Also the Group corrected the tax value of property, plant and equipment which resulted in the increase of deferred tax liabilities of the Group in the amount of RUB 3 182 763 thousand (2011: RUB 1 284 004 thousand).

The Group’s applicable tax rate in the Russian Federation is the income tax rate of 20%.

Reconciliation of effective tax rate:

	2012		2011	
	’000 RUB	**%**	**’000 RUB**	**%**
Profit before income tax	25 396 524	100	23 444 592	100
Income tax at applicable tax rate	(5 079 305)	(20)	(4 688 918)	(20)
Overprovided in prior periods	3 107 958	12	1 240 114	5
Change in tax base of PPE	(3 182 763)	(12)	(1 284 004)	(5)
Non-deductible expenses	(1 292 530)	(5)	(669 224)	(3)
	(6 446 640)	**(25)**	**(5 402 032)**	**(23)**

12 Property, plant and equipment

'000 RUB	Land and buildings	Trans-mission networks	Transfor-mers and transformer substations	Other	Construction in progress	Total
At 1 January 2011	22 560 102	96 593 433	34 884 503	38 161 219	42 565 958	234 765 215
Additions	403 205	884 119	234 252	2 013 827	29 068 636	32 604 039
Disposals	(10 484)	(137 204)	(23 764)	(21 045)	(488 856)	(681 353)
Transfers	2 652 165	12 187 284	6 535 153	7 176 905	(28 551 507)	-
At 31 December 2011	**25 604 988**	**109 527 632**	**41 630 144**	**47 330 906**	**42 594 231**	**266 687 901**
Depreciation						
At 1 January 2011	(3 670 672)	(19 362 862)	(7 443 901)	(13 535 340)	(526 801)	(44 539 576)
Depreciation charge	(927 222)	(5 895 947)	(2 169 744)	(7 491 595)	-	(16 484 508)
Impairment losses	-	-	-	-	(4 780)	(4 780)
Disposals	4 020	39 641	11 156	14 995	5 390	75 202
At 31 December 2011	**(4 593 874)**	**(25 219 168)**	**(9 602 489)**	**(21 011 940)**	**(526 191)**	**(60 953 662)**
Net book value						
At 1 January 2011	18 889 430	77 230 571	27 440 602	24 625 879	42 039 157	190 225 639
At 31 December 2011	**21 011 114**	**84 308 464**	**32 027 655**	**26 318 966**	**42 068 040**	**205 734 239**
At 1 January 2012	25 604 988	109 527 632	41 630 144	47 330 906	42 594 231	266 687 901
Additions	2 529 712	4 167 522	964 297	1 023 542	30 508 605	39 193 678
Disposals	(11 573)	(319 010)	(155 303)	(66 330)	(398 914)	(951 130)
Transfers	868 068	20 831 574	5 937 103	9 480 976	(37 117 721)	-
At 31 December 2012	**28 991 195**	**134 207 718**	**48 376 241**	**57 769 094**	**35 586 201**	**304 930 449**
Depreciation						
At 1 January 2012	(4 593 874)	(25 219 168)	(9 602 489)	(21 011 940)	(526 191)	(60 953 662)
Depreciation charge	(955 769)	(6 298 632)	(2 405 379)	(7 639 954)	-	(17 299 734)
Impairment losses	-	-	-	-	(252 864)	(252 864)
Disposals	2 454	101 983	64 339	50 055	4 119	222 950
At 31 December 2012	**(5 547 189)**	**(31 415 817)**	**(11 943 529)**	**(28 601 839)**	**(774 936)**	**(78 283 310)**
Net book value						
At 1 January 2012	21 011 114	84 308 464	32 027 655	26 318 966	42 068 040	205 734 239
At 31 December 2012	**23 444 006**	**102 791 901**	**36 432 712**	**29 167 255**	**34 811 265**	**226 647 139**

(a) Impairment of property, plant and equipment

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2012. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active 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.

As a result of impairment testing no impairment loss has been recognized.

During the year the management identified and wrote-off items of construction in progress in the amount of RUB 252 864 thousand (2011: RUB 4 780 thousand) which will not be used in operating activities.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2012 the net book value of leased plant and machinery was RUB 13 195 294 thousand (31 December 2011: RUB 15 868 096 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Borrowing costs totalling RUB 2 010 270 thousand as at 31 December 2012 with a capitalisation rate of 8.59% (2011: RUB 2 165 153 thousand with a capitalisation rate of 8.16%) were included in the cost of property, plant and equipment and represent interest on loans.

(d) Advance payments for property, plant and equipment

As at 31 December 2012 construction in progress includes advance payments for property, plant and equipment of RUB 2 075 258 thousand (31 December 2011: RUB 3 599 713 thousand).

13 Intangible assets

’000 RUB	Software	Certificates and licences	Other	Total
At 1 January 2011	164 344	-	-	164 344
Additions	418 377	27 987	1 276	447 640
Disposals	(5 381)	-	-	(5 381)
At 31 December 2011	**577 340**	**27 987**	**1 276**	**606 603**
Amortisation				
At 1 January 2011	(78 809)	-	-	(78 809)
Amortisation	(46 070)	(14 466)	(1)	(60 537)
Disposals	5 381	-	-	5 381
At 31 December 2011	**(119 498)**	**(14 466)**	**(1)**	**(133 965)**
Net book value				
At 1 January 2011	85 535	-	-	85 535
At 31 December 2011	**457 842**	**13 521**	**1 275**	**472 638**

'000 RUB	Software	Certificates and licences	Other	Total
At 1 January 2012	577 340	27 987	1 276	606 603
Additions	71 544	34 408	61 583	167 535
Disposals	(107 672)	(10 478)	(18)	(118 168)
At 31 December 2012	**541 212**	**51 917**	**62 841**	**655 970**
Amortisation				
At 1 January 2012	(119 498)	(14 466)	(1)	(133 965)
Amortisation	(88 733)	(21 329)	(129)	(110 191)
Disposals	107 672	10 478	5	118 155
At 31 December 2012	**(100 559)**	**(25 317)**	**(125)**	**(126 001)**
Net book value				
At 1 January 2012	457 842	13 521	1 275	472 638
At 31 December 2012	**440 653**	**26 600**	**62 716**	**529 969**

14 Investments

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Non-current		
Promissory notes	621 674	560 737
	621 674	**560 737**
Current		
Trust contract	-	125 000
Bank deposit	10 001	50 000
	10 001	**175 000**

15 Other non-current assets

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Long-term advances for connection services	14 932 380	12 955 817
VAT on advances from customers	1 184 157	3 108 173
Financial assets available-for-sale	321 530	441 061
Other non-current assets	14 519	493 607
Allowance for impairment on long-term advances	(5 736 319)	(2 989 838)
	10 716 267	**14 008 820**

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

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property, plant and equipment	90 833	10 388	(16 199 248)	(12 868 370)	(16 108 415)	(12 857 982)
Intangible assets	-	-	(719)	(6 329)	(719)	(6 329)
Inventories	102 862	6 060	-	-	102 862	6 060
Trade and other receivables	2 797 519	2 296 096	(23 935)	-	2 773 584	2 296 096
Finance lease liability	2 247 739	2 244 655	-	-	2 247 739	2 244 655
Loans and borrowings	-	-	(432 492)	(221 256)	(432 492)	(221 256)
Employee benefits	208 054	180 818	-	-	208 054	180 818
Trade and other payables	-	568	(116 008)	(682)	(116 008)	(114)
Provisions	634 537	101 582	-	-	634 537	101 582
Deferred expenses	498 250	401 372	-	-	498 250	401 372
Other	75 052	73 255	(8 536)	(565)	66 516	72 690
Tax assets/(liabilities)	**6 654 846**	**5 314 794**	**(16 780 938)**	**(13 097 202)**	**(10 126 092)**	**(7 782 408)**

(b) Movement in temporary differences during the year

'000 RUB	1 January 2012	Recognised in profit or loss	31 December 2012
Property, plant and equipment	(12 857 982)	(3 250 433)	(16 108 415)
Intangible assets	(6 329)	5 610	(719)
Inventories	6 060	96 802	102 862
Trade and other receivables	2 296 096	477 488	2 773 584
Finance lease liability	2 244 655	3 084	2 247 739
Loans and borrowings	(221 256)	(211 236)	(432 492)
Employee benefits	180 818	27 236	208 054
Trade and other payables	(114)	(115 894)	(116 008)
Provisions	101 582	532 955	634 537
Deferred expenses	401 372	96 878	498 250
Other	72 690	(6 174)	66 516
	(7 782 408)	**(2 343 684)**	**(10 126 092)**

'000 RUB	1 January 2011	Recognised in profit or loss	31 December 2011
Property, plant and equipment	(12 095 525)	(762 457)	(12 857 982)
Intangible assets	(2 145)	(4 184)	(6 329)
Inventories	519	5 541	6 060
Trade and other receivables	1 581 727	714 369	2 296 096
Finance lease liability	2 673 596	(428 941)	2 244 655
Loans and borrowings	(221 256)	-	(221 256)
Employee benefits	225 328	(44 510)	180 818
Trade and other payables	(255)	141	(114)
Provisions	282 435	(180 853)	101 582
Deferred expenses	498 053	(96 681)	401 372
Other	114 385	(41 695)	72 690
	(6 943 138)	**(839 270)**	**(7 782 408)**

17 Inventories

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Raw materials and consumables	2 015 612	1 655 597
Other	445 749	451 638
Allowance for impairment of inventories	(395 166)	(7 231)
	2 066 195	**2 100 004**

18 Trade and other receivables

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Trade receivables	11 082 541	10 654 976
Advances given	934 008	4 496 157
VAT on advances from customers	5 521 915	4 754 214
VAT receivable	-	250 337
Other receivables	1 233 911	876 010
VAT recoverable	2 699 927	2 359 750
Allowance for impairment of accounts receivable	(1 345 813)	(1 289 516)
	20 126 489	**22 101 928**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

19 Cash and cash equivalents

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Petty cash	5 091	3 298
Current accounts	8 317 808	3 505 509
Cash equivalents	9 011	436 068
Cash and cash equivalents in the statement of financial position and statement of cash flows	**8 331 910**	**3 944 875**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

20 Equity

(a) Share capital

Share capital	Ordinary shares 31 December 2012	Ordinary shares 31 December 2011
Issued shares, fully paid	48 707 091 574	48 707 091 574
Par value (in RUB)	RUB 0.50	RUB 0.50

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

(b) Treasury shares

The Group did not hold any own shares as at 31 December 2012 and 31 December 2011.

(c) Dividends

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

In 2012 the Company declared and paid dividends in amount of RUB 1 217 677 thousand (RUB 0.025 per share) (2011: in amount of RUB 1 200 001 thousand (RUB 0.02 per share)).

(d) Acquisition of non-controlling interests

On 15 February 2012, the Group acquired an additional 9 999 shares of OJSC Energocentr, a subsidiary of the Group, for a cash consideration of RUB 51 000 thousand, increasing its ownership interest in OJSC Energocentr from 50% to 75% minus one share. The carrying amount of OJSC Energocentr's net assets in the Group`s financial statements on the date of the acquisition was RUB 982 002 thousand. As a result of this transaction the Group recognised a decrease in non-controlling interests of RUB 242 228 thousand, and an increase in retained earnings of RUB 191 228 thousand.

The following table summarises the effect of changes in the Company`s ownership interest in OJSC Energocentr.

'000 RUB	2012
Company`s ownership interest at 1 January	497 547
Effect of increase in Company`s ownership interest	242 228
Share of comprehensive income	(32 276)
Company`s ownership interest at 31 December	**707 499**

21 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	31 December 2012	31 December 2011
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the year attributable to the shareholders of OJSC "MOESK" ('000 RUB)	18 960 643	17 947 766
Earnings per share (RUB)	0.3893	0.3685

22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see Note 27.

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Non-current		
Unsecured bank facility	39 266 231	39 040 137
Unsecured bond issues	10 537 553	-
Finance lease liabilities	233 386	926 425
	50 037 170	**39 966 562**
Current		
Unsecured bank facility	2 997 905	-
Promissory notes	-	1 254 172
Current portion of unsecured bond issues	348 296	3 235 489
Current portion of unsecured bank facility	31 299	25 036
Current portion of finance lease liabilities	693 039	1 994 389
	4 070 539	**6 509 086**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

		2012	2011		2012		2011	
'000 RUB	**Currency**	**Nominal interest rate**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank facility	RUB	9.75%	9.75%	2015	1 496 928	1 496 928	1 495 726	1 495 726
Unsecured bonds	RUB	-	22%-25%	2010	1 167 174	709 137	3 235 489	3 235 489
Unsecured bank facility	RUB	9.75%	9.75%	2015	2 993 658	2 993 658	2 991 248	2 991 248
Unsecured bank facility	RUB	9.75%	9.75%	2015	2 993 460	2 993 460	2 991 057	2 991 057
Unsecured bank facility	RUB	9.75%	9.75%	2017	2 991 801	2 991 801	2 989 996	2 989 996
Unsecured bank facility	RUB	9.75%	9.75%	2017	2 991 646	2 991 646	2 989 844	2 989 844
Unsecured bank facility	RUB	9.75%	9.75%	2017	621 210	621 210	620 831	620 831
Unsecured bank facility*	RUB	7.75%	7.75%	2013	-	-	2 995 628	2 995 628
Unsecured bank facility*	RUB	7.82%	7.82%	2013	-	-	2 995 471	2 995 471
Unsecured bank facility*	RUB	7.83%	7.83%	2013	3 000 473	3 000 473	2 995 306	2 995 306
Unsecured bank facility*	RUB	7.80%	7.80%	2014	2 002 557	2 002 557	2 002 564	2 002 564
Unsecured bank facility*	RUB	7.80%	7.80%	2014	2 002 557	2 002 557	2 002 564	2 002 564
Unsecured bank facility*	RUB	7.72%	7.72%	2015	3 002 532	3 002 532	3 002 539	3 002 539
Unsecured bank facility*	RUB	7.72%	7.72%	2015	3 202 700	3 202 700	2 323 801	2 323 801
Unsecured bank facility*	RUB	7.72%	7.72%	2015	1 501 266	1 501 266	1 501 269	1 501 269
Unsecured bank facility*	RUB	6.87%	6.87%	2014	1 361 807	1 361 807	1 051 785	1 051 785
Unsecured bank facility*	RUB	7.46%	7.46%	2016	2 502 039	2 502 039	2 502 044	2 502 044
Unsecured bank facility*	RUB	10.10%	8.50%	2016	1 500 000	1 500 000	1 500 000	1 500 000
Unsecured bank facility*	RUB	MosPrime rate + 2.83%	MosPrime rate + 2.83%	2019	2 127 885	2 127 885	113 500	113 500
Unsecured bank facility*	RUB	MosPrime rate + 1.4212%	-	2014	3 001 458	3 001 458	-	-
Unsecured bank facility*	RUB	MosPrime rate + 1.4212%	-	2014	3 001 458	3 001 458	-	-
Promissory notes *	RUB	9%	9%	2012	-	-	946 834	1 254 172
Unsecured bonds	RUB	8.80%	-	2015	5 111 461	5 111 461	-	-
Unsecured bonds	RUB	8.80%	-	2015	5 065 251	5 065 251	-	-
Finance lease liabilities	RUB	-	-	-	-	926 425	-	2 920 814
					53 639 321	**54 107 709**	**43 247 496**	**46 475 648**

*Loans from state controlled entities

Finance lease liabilities are payable as follows:

	2012			2011		
'000 RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	808 894	115 855	693 039	2 058 038	63 650	1 994 389
Between one and five years	367 467	141 959	225 508	1 146 987	249 995	896 992
More than five years	9 449	1 571	7 878	38 823	9 390	29 433
	1 185 810	**259 385**	**926 425**	**3 243 848**	**323 035**	**2 920 814**

All bank loans are unsecured. The finance lease liabilities are secured by the leased assets (see Note 12).

OJSC Energocentr

By July 2010 OJSC Energocentr failed to pay the fifth, sixth and part of the fourth semi-annual coupons on its bonds in the amount of RUB 757 317 thousand and failed to repurchase bonds in the amount of RUB 2 478 172 thousand, due to liquidity problems.

On 8 February 2012, the Arbitration court of the Moscow region passed a ruling on the approval of the agreement, concluded between OJSC Energocentr and the representative of the creditors. On 18 April 2012, the ruling was cancelled by the Federal Arbitration court of the Moscow region.

On 30 July 2012, the Arbitration court of the Moscow region iteratively passed a ruling on the approval of the agreement, concluded between OJSC Energocentr and the representative of the creditors. According to the agreement, OJSC Energocentr undertakes to repay debts in accordance with the approved schedule of repayment of the debt. According to the court decision, the bankruptcy proceedings of OJSC Energocentr were terminated.

23 Employee benefits

(a) Post employment benefits

	2012	2011
	'000 RUB	**'000 RUB**
Total present value of obligations	3 171 318	2 279 495
Unrecognised past service cost	(487 447)	(352 346)
Net actuarial losses not recognised in the consolidated statement of financial position	(1 456 370)	(850 018)
Net liabilities in the consolidated statement of financial position	**1 227 501**	**1 077 131**

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

	2012	2011
	'000 RUB	'000 RUB
Defined benefit obligations at 1 January	2 279 495	1 674 219
Benefits paid by the plan	(483 526)	(420 492)
Current service cost	120 372	150 403
Interest costs	176 998	112 220
Actuarial losses	666 373	427 817
Past service cost	411 606	335 328
Defined benefit obligations at 31 December	**3 171 318**	**2 279 495**

(ii) Expense recognised in profit or loss

	2012	2011
	'000 RUB	'000 RUB
Current service costs	120 372	150 403
Interest costs	176 998	112 220
Recognised actuarial loss	60 021	18 333
Past service cost	276 505	370 513
	633 896	**651 469**

(b) Other long-term employee benefits

	2012	2011
	'000 RUB	'000 RUB
Present value of obligations	**134 298**	**279 521**

The Group provides long-service jubilee benefits and funeral benefits for its employees. The whole amount of these obligations is unfunded.

(i) Movements in the present value of other long-term employee benefit obligations

	2012 '000 RUB	2011 '000 RUB
Defined benefit obligations at 1 January	279 521	803 120
Contribution received	(11 754)	(25 159)
Current service costs	10 929	41 021
Interest costs	10 944	65 519
Actuarial gains recognised in the statement of comprehensive income	(4 041)	(604 980)
Past service cost	(151 301)	-
Defined benefit obligations at 31 December	**134 298**	**279 521**

(ii) Expense recognised in the consolidated statement of comprehensive income

	2012 '000 RUB	2011 '000 RUB
Current service costs	10 929	41 021
Interest on obligation	10 944	65 519
Recognised actuarial gains	(4 041)	(604 980)
Recognized past service cost	(151 301)	-
	(133 469)	**(498 440)**

(c) Actuarial assumptions

Principal actuarial assumptions for both post employment benefits and other long-term employee benefits:

	2012	2011
Discount rate at 31 December	7.1%	8.5%
Future salary increases	5%	5.5%
Mortality table	Russia 2002	Russia 2002

The expenses of both post employment benefits and other long-term employee benefits are recognised in the following line items in the statement of comprehensive income:

	2012 '000 RUB	2011 '000 RUB
Operating expenses	312 485	(24 710)
Finance costs	187 942	177 739
	500 427	**153 029**

24 Provisions

'000 RUB	Legal claims
Balance at 1 January 2011	**641 084**
Provisions accrued during the year	961 788
Provisions reversed during the year	(614 507)
Balance at 31 December 2011	**988 365**
Provisions accrued during the year	2 507 606
Provisions reversed during the year	(323 286)
Balance at 31 December 2012	**3 172 685**

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. The balance of the provision at 31 December 2012 is expected to be utilised in 2013. The management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Non-current		
Advances received	8 038 079	21 139 050
Other payables	1 306 445	1 331 925
	9 344 524	**22 470 975**
Current		
Accounts payable – trade	9 556 130	13 323 017
Advances received	37 382 903	32 207 137
Other payables and accrued expenses	1 984 914	1 928 281
	48 923 947	**47 458 435**

As at 31 December 2012 overdue advances received for connection services were RUB 12 197 841 thousand (31 December 2011: RUB 10 381 803 thousand). The Group's approach to managing liquidity is entering into additional agreements with revised terms of execution.

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

26 Other taxes payable

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Property tax	69 394	71 281
Other taxes	14 449	10 623
Employee taxes	2 827	6 308
Value added tax	903 959	24 878
	990 629	**113 090**

27 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor 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 training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Approximately 70% (2011: 74%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over six years, and, historically, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group's management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

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 relates 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	
'000 RUB	**31 December 2012**	**31 December 2011**
Trade and other receivables	11 020 024	10 293 774
Cash and cash equivalents	8 331 910	3 944 875
Short-term/long-term investments	631 675	735 737
Available-for-sale financial assets	321 530	441 061
	20 305 139	**15 415 447**

The Group's most significant customer is controlled by the Government of Russian Federation and accounts for RUB 8 457 269 thousand of the trade receivables carrying amount at 31 December 2012 (2011: RUB 7 763 201 thousand).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
'000 RUB	**2012**	**2012**	**2011**	**2011**
Not past due	10 038 582	-	9 288 400	-
Past due less than 3 months	538 410	-	682 981	5 096
Past due from 3 to 6 months	31 862	-	82 900	-
Past due from 6 months to one year	419 768	114 043	231 685	175 190
More than one year	1 258 966	1 153 521	1 214 644	1 026 550
	12 287 588	**1 267 564**	**11 500 610**	**1 206 836**

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

	31 December 2012 '000 RUB	31 December 2011 '000 RUB
Balance at 1 January	1 206 836	752 821
Increase during the period	199 852	494 286
Decrease due to reversal	(139 124)	(40 271)
Balance at 31 December	**1 267 564**	**1 206 836**

The impairment loss at 31 December 2012 of RUB 1 267 564 thousand (2011: RUB 1 206 836 thousand) relates to disputable accounts receivable with no payment.

Based on past experience and analysis performed by the credit department, Group management believes that no impairment allowance is necessary in respect of accounts receivable not past due because the customers to which these balances relate have a good credit history.

(ii) Bank deposits, cash and cash equivalents

Bank deposits, cash and cash equivalents are now deposited only with financial institutions that at the time of deposit the management considers to have minimal risk of default. Bank deposits, cash and cash equivalents are mainly held at OJSC Bank Moscow, OJSC Sberbank, OJSC Bank VTB, OJSC ATB bank, OJSC Uralsib, OJSC Alfa-Bank.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective of liquidity management 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.

The Group monitors and manages liquidity risk by maintaining bank credit lines, obtaining loans (Note 22) and sufficient cash balances on its settlement accounts (see Note 19).

As stated in Note 22, by July 2010 OJSC Energocentr failed to repurchase bonds and pay-off coupons on its bonds due to liquidity problems. Included in these consolidated financial statements carrying amount of the total assets of OJSC Energocentr was RUB 6 578 876 thousand as at 31 December 2012 (2011: RUB 7 084 448 thousand).

The following are the contractual maturities of financial liabilities, including estimated interest payments and the impact of netting agreements:

2012 '000 RUB	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	42 295 435	53 177 379	6 589 834	14 433 211	17 305 804	5 081 364	7 235 795	2 531 371
Bonds issued	10 885 849	13 602 809	1 030 595	972 186	10 878 828	98 924	74 674	547 602
Finance lease liabilities	926 425	1 185 810	808 894	112 064	120 935	99 029	35 439	9 449
Trade payables	9 556 130	9 556 130	9 556 130	-	-	-	-	-
	63 663 839	**77 522 128**	**17 985 453**	**15 517 461**	**28 305 567**	**5 279 317**	**7 345 908**	**3 088 422**

2011 '000 RUB	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	39 065 173	52 217 841	3 413 568	12 023 756	7 644 575	17 098 709	4 873 702	7 163 531
Bonds issued	3 235 489	3 235 489	3 235 489	-	-	-	-	-
Promissory notes	1 254 172	1 340 137	1 340 137	-	-	-	-	-
Finance lease liabilities	2 920 814	3 243 848	2 058 038	784 170	142 853	120 935	99 029	38 823
Trade payables	13 323 017	13 323 017	13 323 017	-	-	-	-	-
	59 798 665	**73 360 332**	**23 370 249**	**12 807 926**	**7 787 428**	**17 219 644**	**4 972 731**	**7 202 354**

(d) Market risk

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

(i) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable 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.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
'000 RUB	**2012**	**2011**
Fixed rate instruments		
Financial assets	8 963 585	4 680 612
Financial liabilities	(45 976 908)	(46 362 148)
	(37 013 323)	**(41 681 537)**
Variable rate instruments		
Financial liabilities	**(8 130 801)**	**(113 500)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, 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.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
'000 RUB	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
2012				
Cash flow sensitivity (net)	**(81 308)**	**81 308**	**(81 308)**	**81 308**
2011				
Cash flow sensitivity (net)	**(1 135)**	**1 135**	**(1 135)**	**1 135**

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values versus carrying amounts

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

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

(f) Fair value hierarchy

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

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

'000 RUB	Level 1	Level 2	Level 3	Total
31 December 2012				
Available-for-sale financial assets	321 530	-	-	321 530
Total assets	**321 530**	**-**	**-**	**321 530**
31 December 2011				
Available-for-sale financial assets	441 061	-	-	441 061
Total assets	**441 061**	**-**	**-**	**441 061**

(g) Capital management

The Board'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. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position.

	Carrying amount	
'000 RUB	**2012**	**2011**
Total borrowings (Note 22)	54 107 709	46 475 648
Less: Cash and cash equivalents (Note 19)	(8 331 910)	(3 944 875)
Net debt	45 775 799	42 530 773
Equity	140 594 440	122 913 233
Debt to equity ratio	**32.56%**	**34.60%**

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

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

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2012	**31 December 2011**
	'000 RUB	**'000 RUB**
Less than one year	1 274 814	952 897
Between one and five years	922 404	1 094 183
More than five years	4 478 551	3 955 819
	6 675 769	**6 002 899**

The Group leases a number of plots of land owned by local governments under operating lease. Land lease payments are determined by lease agreements.

The plots of land leased by the Group are the areas where the Group's electricity network, transformer substations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

29 Commitments

Future capital expenditures for which contracts have been signed as at 31 December 2012 amount to RUB 39 689 257 thousand (31 December 2011: RUB 31 716 988 thousand). Capital commitments for current finance lease agreements for the items of property, plant and equipment amount to RUB 1 247 494 thousand (31 December 2011: RUB 2 735 795 thousand).

30 Contingencies

(a) Insurance

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

(b) Litigation

The Group is party to certain legal proceedings arising in the ordinary course of business. The management does not believe that these matters will have a material adverse effect on the Group's operating results.

(c) Taxation contingencies in the Russian Federation

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

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

(d) Environmental matters

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

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

31 Related party transactions

(a) Control relationships

As at 31 December 2012 the Parent of the Group was OJSC MRSK Holding, a state controlled entity. The party with ultimate control over the Group is the Government of the Russian Federation, which held the majority of the voting rights of OJSC MRSK Holding.

(b) Transactions with management and close family members

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

(i) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs (see note 8):

'000 RUB	2012	2011
Short-term employee benefits	392 219	320 213
Termination benefits	89 496	5 674
	481 715	**325 887**

(c) Transactions with state-controlled entities

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

Revenues from state-controlled entities for the year ended 31 December 2012 constitute 76 % (2011: 82%) of total Group revenues, including 94 % (2011: 95%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2012 constitute 77% (2011: 66%) of total transmission costs.

Significant loans from state-controlled entities are disclosed in Note 22.

(d) Pricing policies

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

In accordance with the Company Charter documents, the following transactions are subject to the approval of the Board of Directors, if the amount of the transaction is below 2% of total assets of the Company as determined in accordance with RAP, and are subject to approval at the Shareholders` meeting if the amount of the transaction exceeds 2% of the total assets of the Company as determined in accordance with RAP:

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;

- Transaction involving the entities where the management of the Company also act in management capacity.

32 Events subsequent to the reporting date

In February 2013 the Company issued bonds in the amount of RUB 5 000 000 thousand at the interest rate of 8.5%. The bonds are to be repaid on 10 February 2016.

In March 2013 the Group made an early repayment of the unsecured loans amounting to RUB 7 500 000 thousand to OJSC Alfa-Bank and 1 500 000 thousand to OJSC Gazprombank in January 2013.

On 23 March 2013 at a Extraordinary General Meeting of Shareholders of OJSC IDGC Holding changes and additions were made to the Charter of OJSC IDGC Holding, under which the Parent Company was renamed OJSC Russian Grids.