

**JSC INTERREGIONAL DISTRIBUTION GRID COMPANY OF NORTHERN CAUCASUS
CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOR THE YEAR ENDED 31 DECEMBER 2012**

Contents

Independent Auditors' Report	
Consolidated Statement of Financial Position.....	5
Consolidated Statement of Comprehensive Income.....	6
Consolidated Statement of Cash Flows.....	7
Consolidated Statement of Changes in Equity	8

Notes to the Consolidated Financial Statements

Note 1. Background	9
Note 2. Basis of preparation.....	9
Note 3. Significant accounting policies.....	11
Note 4. New standards and interpretations not yet adopted	19
Note 5. Determination of fair value.....	21
Note 6. Operating segments	22
Note 7. Property, plant and equipment.....	28
Note 8. Intangible assets.....	30
Note 9. Deferred tax assets.....	31
Note 10. Other non-current assets	33
Note 11. Inventories	33
Note 12. Trade and other receivables	33
Note 13. Prepayments for current assets	34
Note 14. Cash and cash equivalents	34
Note 15. Non-current assets held for sale.....	34
Note 16. Equity	34
Note 17. Loans and borrowings	35
Note 18. Employee benefits	36
Note 19. Trade and other payables.....	38
Note 20. Other taxes payable	38
Note 21. Revenue	38
Note 22. Operating expenses.....	39
Note 23. Other operating income, net	39
Note 24. Personnel costs	39
Note 25. Finance income and costs.....	40
Note 26. Income tax expense	40
Note 27. Financial risk management.....	41
Note 28. Operating leases.....	44
Note 29. Commitments	45
Note 30. Contingencies	45
Note 31. Related parties	46
Note 32. Events after the reporting period	47



ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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

Auditors' Report

To the Shareholders and Board of Directors

JSC Interregional Distribution Grid Company of Northern Caucasus

We have audited the accompanying consolidated financial statements of JSC Interregional Distribution Grid Company of Northern Caucasus (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 provide a basis for our qualified audit opinion.

Audited entity: JSC Interregional Distribution Grid Company of Northern Caucasus

Registered in the Unified State Register of Legal Entities on 4 August 2008 by Inspectorate of the Federal tax service in Pyatigorsk, Registration No. 1062632029778, Certificate series 26 No. 001634873.

18 Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, Russian Federation, 357506.

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

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

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

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

Basis for Qualified Opinion

We did not observe the counting of inventories with a carrying amount of 815,955 thousand roubles as at 1 January 2011 because we were engaged as auditors of the Group only after that date. We were unable to satisfy ourselves as to those inventory quantities by alternative means. As a result, we were unable to determine whether adjustments might have been found necessary in respect of the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows for 2011. Our opinion on the consolidated financial statements as at and for the year ended 31 December 2011 dated 4 June 2012 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Opinion

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



Krasnikhina T.E., Director, (power of attorney dated 1 October 2010 No. 38/10)

ZAO KPMG

24 April 2013

Moscow, Russian Federation

JSC IDGC of Northern Caucasus
Consolidated Statement of Financial Position as at 31 December 2012
(thousands of Russian Roubles, unless otherwise stated)

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	17,580,658	13,725,032
Intangible assets	8	63,272	9,942
Deferred tax assets	9	712,421	672,405
Other non-current assets	10	355,738	352,010
Total non-current assets		18,712,089	14,759,389
Current assets			
Inventories	11	702,438	772,226
Income tax receivable		665	233,863
Trade and other receivables	12	2,673,972	2,299,193
Prepayments for current assets	13	65,995	114,573
Cash and cash equivalents	14	1,201,108	368,921
Non-current assets held for sale	15	6,919	12,095
Total current assets		4,651,097	3,800,871
TOTAL ASSETS		23,363,186	18,560,260
EQUITY AND LIABILITIES			
Equity			
Share capital	16	56,092	29,532
Additional paid in capital		2,596,665	165,323
Retained earnings		6,012,815	6,236,217
Total equity		8,665,572	6,431,072
Non-current liabilities			
Loans and borrowings	17	2,466,752	854,347
Trade and other payables	19	268,038	234,418
Employee benefits	18	237,235	223,387
Total non-current liabilities		2,972,025	1,312,152
Current liabilities			
Loans and borrowings	17	2,928,503	2,663,534
Trade and other payables	19	8,388,315	7,794,990
Other taxes payable	20	408,771	358,512
Total current liabilities		11,725,589	10,817,036
Total liabilities		14,697,614	12,129,188
TOTAL EQUITY AND LIABILITIES		23,363,186	18,560,260

These consolidated financial statements were approved by management on 24 April 2013 year and were signed on its behalf by:

Acting General Director

P. A. Seltsovsky

Chief accountant

N. V. Larionova



JSC IDGC of Northern Caucasus
Consolidated Statement of Comprehensive Income for the year ended 31 December 2012
(thousands of Russian Roubles, unless otherwise stated)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	21	14,554,113	12,978,582
Operating expenses	22	(14,389,630)	(12,929,175)
Other operating income, net	23	54,575	45,482
Operating profit		219,058	94,889
Finance income	25	103,102	65,384
Finance costs	25	(86,199)	(313,254)
Profit / (loss) before income tax		235,961	(152,981)
Income tax expense	26	(459,363)	(397,926)
Loss for the year		(223,402)	(550,907)
Total comprehensive loss for the year		(223,402)	(550,907)
Total comprehensive loss attributable to:			
Shareholders of the Company		(223,402)	(550,907)
Loss per share - basic and diluted (in RUB)	16	(4.65)	(18.65)

JSC IDGC of Northern Caucasus
Consolidated Statement of Cash Flows for the year ended 31 December 2012
(thousands of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
OPERATING ACTIVITIES:			
Profit / (loss) before income tax		235,961	(152,981)
Adjustments for:			
Depreciation and amortisation	7,8,22	1,266,146	989,205
Allowance for impairment of accounts receivable	22,27	1,746,261	272,082
Allowance for obsolescence of inventories	11	(4,098)	(11,197)
Impairment loss on property, plant and equipment	7,22	301,189	523,624
Provision for unused vacation		20,074	(13,808)
Provision for legal processes		90,514	23,764
Finance income	25	(103,102)	(65,384)
Finance costs	25	86,199	313,254
Loss / (gain) on disposal of property, plant and equipment	23	5,081	(13,893)
Other non-cash transactions		86	163
Operating profit before working capital changes		3,644,311	1,864,829
Change in accounts receivable		(2,088,467)	(518,736)
Change in prepayments for current assets		48,578	41,336
Change in inventories		73,886	54,926
Change in other non-current assets		(16,405)	(54,232)
Change in accounts payable		900,385	4,766,060
Change in employee benefits		13,848	55,602
Change in other taxes payable		14,915	89,951
Cash flows from operations before income tax and interest paid		2,591,051	6,299,736
Interest paid		(147,141)	(32,698)
Income tax paid in cash		(230,837)	(161,890)
Net cash flows from operating activities		2,213,073	6,105,148
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(4,925,966)	(6,077,984)
Proceeds from disposal of property, plant and equipment		43,252	432
Proceeds from disposal of assets held for sale		24,033	-
Acquisition of intangible assets		(71,341)	(16,150)
Purchase of promissory notes		(671,788)	(936,031)
Interest received		21,002	216
Net cash flows used in investing activities		(5,580,808)	(7,029,517)
FINANCING ACTIVITIES:			
Issue of shares	16	2,457,902	-
Proceeds of loans and borrowings		3,021,632	1,626,203
Repayment of loans and borrowings		(1,274,360)	(520,000)
Repayment of finance lease liabilities		(5,252)	(5,256)
Net cash flows from financing activities		4,199,922	1,100,947
Net increase in cash and cash equivalents		832,187	176,578
Cash and cash equivalents at the beginning of the year	14	368,921	192,343
Cash and cash equivalents at the end of the year	14	1,201,108	368,921

JSC IDGC of Northern Caucasus
Consolidated Statement of Changes in Equity for the year ended 31 December 2012
(thousands of Russian Roubles, unless otherwise stated)

	Share capital	Additional paid in capital	Retained earnings	Total equity
As at 1 January 2011	29,532	-	6,787,124	6,816,656
Loss for the year	-	-	(550,907)	(550,907)
Total comprehensive loss for the year	-	-	(550,907)	(550,907)
Discounting effect on loan given from the Parent company	-	165,323	-	165,323
As at 31 December 2011	29,532	165,323	6,236,217	6,431,072
 As at 1 January 2012	 29,532	 165,323	 6,236,217	 6,431,072
Loss for the year	-	-	(223,402)	(223,402)
Total comprehensive loss for the year	-	-	(223,402)	(223,402)
Issue of shares	26,560	2,431,342		2,457,902
As at 31 December 2012	56,092	2,596,665	6,012,815	8,665,572

Note 1. Background

(a) The Group and its operations

Joint-Stock Company Interregional Distribution Grid Company of Northern Caucasus (hereafter, the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian open joint stock companies as defined in the Civil Code of the Russian Federation. The Company was set up on 14 June 2006 based on Resolution no. 223 of 14 June 2006 of the Russian Open Joint-Stock Company RAO "United Energy Systems of Russia" (hereafter, "RAO UES"). On 21 July 2006 the Board of Directors of the Company and its Articles were approved by the Board of Directors' decision of the Russian Open Joint-Stock Company RAO UES (board of directors' meeting minutes no. 186-r of 21 July 2006). Until 1 August 2007 the Company was named JSC "Southern Grid Company".

On 1 April 2008 the reorganization of the Company was completed through the merger of the grid companies of JSC "Stavropolenergo", JSC "Dagenergo", and JSC "Caucasian Energy Management Company".

The Company's registered office is 18 Podstancionnaya Street, Energetik village, Pyatigorsk, Stavropol region, Russian Federation, 357506.

The Group consists of the Company and its subsidiaries:

Name	31 December 2012 Ownership, %	31 December 2011 Ownership, %
OJSC "Dagenergoset"	100.0	100.0
OJSC "Energoservice"	100.0	100.0

The Group's principal activity is the transmission and distribution of electricity and the connection of customers to the electricity grid.

As at 31 December 2012 the Government of the Russian Federation owned 56.58% of the shares of JSC IDGC Holding (as at 31 December 2011 – 55.95%), which in turn owned 81.33% of the Company.

(b) Relations with the state and regulation of the Group

Since its foundation the Company has been under control of the Government of the Russian Federation. The Government of the Russian Federation influences the Group's activities through setting power transmission and distribution tariffs.

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

The Group's customer base includes a number of entities controlled by or related to the Government of the Russian Federation. The state also controls a number of the Group's suppliers, such as JSC "FGC UES", providing electricity transmission services through a federal network.

(c) 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.

Note 2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS as at 1 January 2010.

(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, except when otherwise indicated.

(d) Going concern

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

The Group had a net working capital deficit of RUB 7,074,492 thousand as at 31 December 2012 (as at 31 December 2011: RUB 7,016,165 thousand), primarily attributable to trade and other payables and current loans and borrowings.

Of the accounts payable, as at 31 December 2012 RUB 4,410,225 thousand (as at 31.12.2011 – RUB 2,813,527 thousand) is due to JSC "Dagestan Power Sales Company" a subsidiary of JSC IDGC Holding, and hence a related party. Management believes that failure to pay the related party debt will not result in bankruptcy procedures being taken out against the Company.

Management anticipates that any additional repayments required will be met out of operating and financing cash flows. Management believes that the Group has adequate resources to continue in operational existence for the foreseeable future and there is no significant uncertainty regarding the Group's ability to continue as going concern.

Management monitors maturities of the estimated cash flows from operating and financing activities and manages current liquidity using open credit lines. As at 31 December 2012 the Group had unused credit lines in the amount of RUB 2,439,758 thousand. Management considers that the Group has the ability to raise additional loans and borrowings. In 2013 the Group plans to use the total limit on credit lines.

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

On 15 March 2013 the Extraordinary General Meeting of Shareholders of JSC "IDGC of Northern Caucasus" approved an increase in charter capital through issuance of additional 125,722,698 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 25.94.

(e) Use of judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies (Note 3) and the reported amounts of assets, liabilities, income and expenses. 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 that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- * Note 7 – Property, plant and equipment
- * Note 9 – Deferred tax assets
- * Note 11 – Inventories
- * Note 12 – Trade and other receivables
- * Note 18 – Employee benefits

(f) Change in presentation

Reclassification of comparatives

Certain comparative amounts have been reclassified to conform to the current year's presentation.

Note 3. Significant accounting policies

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

(a) Basis of consolidation

(i) Business combinations including 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.

(ii) Subsidiaries

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

(iii) Transactions eliminated on consolidation

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

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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

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.

(ii) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the 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: trade and other receivables, cash and cash equivalents.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 12.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value. Cash and cash equivalents as presented in Note 14.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. 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 and foreign currency differences on available-for-sale debt instruments, 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 equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

(iii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities 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 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, bank overdrafts, 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) Share capital

Ordinary shares

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

(e) Property, plant and equipment and investment property

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, 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. Depreciation commences on the month following the acquisition or, in respect of internally constructed assets, from the month following the month an assets is completed and ready for use. Land is not depreciated.

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

Type of property, plant and equipment	Useful lives (years)
Production buildings	5–80
Transmission network	4–60
Equipment for electricity transformation	5–50
Other	1–50

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

(f) 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 recognized in 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 since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Type of intangible assets	Useful lives (years)
Licenses and certificates	1-10
Software	1-15
Other	1-10

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

(g) 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 consolidated statement of financial position. Operating lease payments (net of benefits granted by the lessor) are recognized in profit or loss on a straight line basis over the lease term

(h) Inventories

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

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

(i) Impairment

(i) Non-derivative financial assets

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

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

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current

economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time. 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 CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

(iii) Non-current assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are classified as held for sale or distribution. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on

a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(j) 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 calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

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.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised. Actuarial gains and losses on other long-term obligations are recognised immediately.

(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. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus 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.

(k) Provisions

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

(l) Revenue

(i) Electricity distribution and sales of electricity

Revenue from distribution and sales of electricity 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 distribution and sales of electricity 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.

(iii) Other services

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

(m) Finance income and costs

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

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

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 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 temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(o) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only when they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed in the notes to the financial statements when they are declared after the reporting date, but before the consolidated financial statements are authorised for issue.

(q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment's results are reviewed regularly by the Management Board to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Segment financial information is presented in the Financial Statements in a manner similar to those provided to the Management Board. The amount of each segment item reported is the measure reported to the Management Board. Total amounts of segment information are reconciled to those in the consolidated financial statements (Note 6).

(r) Related parties

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

Note 4. New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective for the annual reporting period ended 31 December 2012, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- IAS 19 (2011) Employee Benefits. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively.
- IAS 27 (2011) Separate Financial Statements will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011).
- Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- 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 in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the

investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31s, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The new standard is not expected to have a significant effect on the consolidated financial statements of the Group.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

Note 5. Determination of fair value

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 / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(d) Equity and debt securities

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

(e) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Management believes that the fair value of current trade and other receivables approximates their carrying amount. This fair value is determined for disclosure purposes or when acquired in a business combination.

(f) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Note 6. Operating segments

The Management Board of the Company has been determined as the Group Chief Operating Decision-Maker.

The Group's primary activity is the provision of electricity transmission services within the regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation and segments relating to other activities.

The Management Board regularly evaluates and analyses the financial information of the segments reported in the statutory financial statements of respective segments.

In accordance with requirements of IFRS 8 based on the information on segment revenue, profit before income tax and total assets reported to the Management Board the following reporting segments were identified:

- Transmission Segments: Dagestan, North Ossetia-Alania, Stavropol region, Kabardino-Balkaria and Karachaevo-Cherkessia Republics, the main activity of which is the provision of electricity transmission and distribution services within the Russian Federation;
- Other includes operation of: the Ingush branch of the Company and OJSC "Energoservice". None of them meets any of the quantitative thresholds for determining reportable segments in 2012 and 2011.

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

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

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue and profit before income tax, as included in the internal management reports that are reviewed by the Management Board. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(i) Information about reportable segments

For the year ended 31 December 2012

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Revenue:						
Revenue from external counterparties	6,573,310	2,141,669	1,559,613	1,626,845	1,385,448	13,308,359
Inter-segment revenue	-	-	-	-	-	42,820
Total segment revenue	6,573,310	2,141,669	1,559,613	1,626,845	1,385,448	13,351,179
Including:						
<i>Electricity transmission</i>	5,444,152	2,076,772	1,553,851	1,611,550	1,373,031	12,059,356
<i>Connection to the electricity network</i>	1,091,187	61,144	4,057	12,752	11,290	1,180,430
<i>Other revenue</i>	37,971	3,753	1,705	2,543	1,127	111,393
Finance income	14,384	-	2,217	2,318	2,083	21,002
Finance costs	(27,205)	(24,508)	(15,968)	(16,735)	(34,988)	(121,511)
Depreciation	(531,023)	(512,613)	(206,811)	(223,251)	(242,444)	(1,782,471)
Profit / (loss) before income tax	1,429,287	(2,227,942)	(394,489)	3,151	144,191	(1,089,126)

For the year ended 31 December 2011

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Revenue:						
Revenue from external counterparties	5,646,332	2,213,385	1,788,611	1,603,342	1,359,611	12,618,724
Inter-segment revenue	-	-	-	-	-	23,649
Total segment revenue	5,646,332	2,213,385	1,788,611	1,603,342	1,359,611	12,642,373
Including:						
Electricity transmission	5,512,696	2,205,178	1,779,744	1,595,788	1,347,072	12,440,478
Connection to the electricity network	91,098	4,936	7,474	5,107	11,524	120,139
Other revenue	42,538	3,271	1,393	2,447	1,015	81,756
Finance income	95	-	-	-	-	95
Finance costs	(768)	(26,681)	(577)	(12)	(1,240)	(29,278)
Depreciation	(391,408)	(470,702)	(165,380)	(188,113)	(158,148)	(1,429,923)
Profit / (loss) before income tax	551,563	(1,925,857)	170,657	71,167	293,597	(1,257,799)

As at 31 December 2012

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Segment assets	9,295,683	11,549,008	3,552,180	3,281,522	2,557,774	31,753,348
<i>Including property, plant and equipment</i>	7,371,647	9,471,040	2,965,073	2,935,631	2,410,415	26,534,331
Segment liabilities	2,191,186	6,817,205	459,123	555,137	301,235	10,547,940
Capital expenditure	1,624,268	1,667,112	255,834	411,713	308,774	4,802,051

As at 31 December 2011

	Transmission Segments					Total
	Stavropol region	Dagestan Republic	North Ossetia-Alania	Kabardino-Balkarian Republic	Karachayevo-Cherkessian Republic	
Segment assets	7,727,898	9,282,941	3,368,393	2,926,140	2,499,067	26,934,897
<i>Including property, plant and equipment</i>	6,056,357	7,349,914	2,777,452	2,572,815	2,255,720	21,211,106
Segment liabilities	3,283,754	4,924,078	371,266	391,958	446,765	9,491,174
Capital expenditure	1,970,544	565,502	848,924	921,228	937,413	5,458,222

(ii) Reconciliation of reportable segment revenue, loss before income tax and assets and liabilities

Reconciliation of key segment items measured as reported to the Management Board with similar items in these financial statements is presented in the tables below.

Reconciliation of reportable segment revenue is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment revenues	13,351,179	12,642,373
Inter-segment revenue elimination	(42,820)	(23,649)
Reclassification from other income	224,863	244,356
Reversal of accrued revenue	(39,022)	-
Revenue from connection services	953,426	-
Other adjustments	-	(28,514)
Unallocated revenues	106,487	144,016
Revenues per Consolidated Statement of Comprehensive Income	14,554,113	12,978,582

The Group performs its activities in the Russian Federation and does not have any significant revenues from foreign customers or any significant non-current assets located in foreign countries.

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

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment loss before income tax	(1,089,126)	(1,257,799)
Adjustment on property, plant and equipment	287,399	(76,952)
Adjustment for inventories valuation	25,297	30,543
Accrued salaries and wages	1,422	(4,166)
Bad debt allowance adjustment	141,178	1,434,205
Reversal of accrued government subsidies	-	(35,785)
Other provisions	(16,127)	(23,764)
Retirement benefit obligations recognition	2,744	8,909
Reclassified expenses for the purposes of IFRS	(40,892)	(67,059)
Discounting of long-term receivables	19,749	22,507
Discounting of long-term payables	(33,620)	(221,914)
Discounting of long-term promissory notes	(21,569)	(55,117)
Reversal of accrued revenue	(39,022)	-
Revenue from connection services	953,426	-
Other adjustments	(23,744)	(14,667)
Unallocated	68,846	108,078
Profit / (loss) before income tax per Consolidated Statement of Comprehensive Income	235,961	(152,981)

Reconciliation of reportable segment total assets is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment assets	31,753,348	26,934,897
Inter-segment balances	-	(2,032)
Adjustment for net book value of property, plant and equipment	(10,845,064)	(10,393,920)
Adjustments for impairment of account receivables	576,584	424,365
Adjustments for discounting account receivables	(86,868)	(107,970)
Inventories written-off	(8,914)	(13,012)
Recognition of assets related to employee benefits	228,866	212,273
Adjustment for deferred tax calculation	(726,894)	(104,489)
Reversal of accrued revenue	(46,046)	-
Other adjustments	50,800	(35,856)
Unallocated assets*	2,467,374	1,646,004
Total assets per Consolidated Statement of Financial Position	23,363,186	18,560,260

Reconciliation of reportable segment total liabilities is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Total segment liabilities	10,547,940	9,491,174
Inter-segment balances	-	(2,032)
Adjustments for discounting account payables	(808,560)	(842,180)
Adjustments for discounting non-current borrowings	-	(113,619)
Liabilities for short-term employee benefits are not allocated by segment, and adjustment of obligations in accordance with IFRS	237,235	223,387
Accrued salaries and wages	(8,548)	(7,126)
Accrued other liabilities	41,880	25,753
Adjustment for deferred tax calculation	(563,022)	(360,273)
Adjustment for advances for connection services	(882,632)	-
Other adjustments	(4,654)	(19,284)
Unallocated liabilities*	6,137,975	3,733,388
Total liabilities per Consolidated Statement of Financial Position	14,697,614	12,129,188

*unallocated amounts mainly consist of loans, cash and certain Property, plant and equipment.

Note 7. Property, plant and equipment

	Land and buildings	Transmission networks	Equipment for electricity transformation	Construction in progress	Other	Total
Cost						
Balance at 1 January 2011	1,297,410	4,658,737	2,702,818	1,023,245	916,293	10,598,503
Additions	162,503	631,848	742,743	5,050,927	419,739	7,007,760
Transfer	357,263	495,340	742,545	(2,003,805)	408,657	-
Disposals	(257)	(375)	(4,741)	(4)	(1,931)	(7,308)
Transfer to non-current assets for sale	(12,345)	-	-	-	(778)	(13,123)
Balance at 31 December 2011	1,804,574	5,785,550	4,183,365	4,070,363	1,741,980	17,585,832
Balance at 1 January 2012	1,804,574	5,785,550	4,183,365	4,070,363	1,741,980	17,585,832
Additions	210,528	120,941	257,851	4,545,445	363,854	5,498,619
Transfer	492,153	243,515	1,475,557	(2,499,292)	288,067	-
Disposals	(29,836)	(64,880)	(1,662)	(40)	(18,664)	(115,082)
Reclassifications	(911,645)	355,294	874,556	-	(318,205)	-
Transfer to non-current assets for sale	(120)	-	-	-	(7,177)	(7,297)
Balance at 31 December 2012	1,565,654	6,440,420	6,789,667	6,116,476	2,049,855	22,962,072
Accumulated Depreciation						
Balance at 1 January 2011	(254,612)	(1,270,316)	(527,270)	(18)	(317,471)	(2,369,687)
Depreciation for the year	(102,041)	(436,629)	(251,977)	-	(180,746)	(971,393)
Impairment loss	(154,713)	(201,849)	(67,315)	(99,747)	-	(523,624)
Disposals	42	190	1,207	-	1,437	2,876
Transfer to non-current assets for sale	848	-	-	-	180	1,028
Balance at 31 December 2011	(510,476)	(1,908,604)	(845,355)	(99,765)	(496,600)	(3,860,800)
Balance at 1 January 2012	(510,476)	(1,908,604)	(845,355)	(99,765)	(496,600)	(3,860,800)
Depreciation for the year	(52,628)	(566,858)	(369,769)	-	(258,881)	(1,248,136)
Impairment loss	(670)	(73,840)	(77,821)	(148,631)	(227)	(301,189)
Disposals	2,571	11,376	391	-	13,901	28,239
Reclassifications	331,558	(94,651)	(284,661)	-	47,754	-
Transfer to non-current assets for sale	41	-	-	-	431	472
Balance at 31 December 2012	(229,604)	(2,632,577)	(1,577,215)	(248,396)	(693,622)	(5,381,414)
Net book value						
At 31 December 2011	1,294,098	3,876,946	3,338,010	3,970,598	1,245,380	13,725,032
At 31 December 2012	1,336,050	3,807,843	5,212,452	5,868,080	1,356,233	17,580,658

As at 31 December 2012 construction in progress includes advance payments for property, plant and equipment of RUB 1,169,201 thousand (as at 31 December 2011: RUB 1,345,388 thousand).

As at 31 December 2012 advances for property, plant and equipment with a carrying amount of RUB 8,558 thousand were impaired. The impairment loss was recognised in operating expenses.

As at 31 December 2012 an impairment provision of RUB 50,283 thousand in respect of construction in progress where there had been uncertainty about future use was reversed.

As at 31 December 2012 construction in progress includes construction materials of RUB 17,101 thousand (as at 31 December 2011: RUB 43,717 thousand).

Borrowing costs totalling RUB 230,126 thousand with a capitalisation rate of 8.1% were included in the cost of property, plant and equipment and represent interest on loans (2011: RUB 128,403 thousand with a capitalisation rate of 6.3%).

Determination of recoverable amount of property plant and equipment

At the end of the reporting period the Group assessed whether there was any indication that a CGU may be impaired. For those CGUs where such indication exists, the Group performed impairment testing in order to estimate the recoverable amount of the CGU.

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

Therefore the value in use for property, plant and equipment as at 31 December 2012, as at 31 December 2011 and as at 1 January 2011 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the use of property, plant and equipment in the business to its ultimate disposal to determine the recoverable amount of the assets.

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

- cash flows were projected based on actual operating results for 2012 and the Company's business plan for 2013. Cash flows for the period 2014-2022 (for North Osetia-Alania) and for 2014-2024 (for Dagerenergo) were forecast as follows:
 - distribution tariffs for the period from 2013 to 2017 were estimated using a tariff growth rate of 10% in accordance with the limitation of tariff growth set by the Federal Tariff Service as per Executive order of the Government of the Russian Federation #1178 as of 29 December 2011. An exception was made for Dagerenergo which is forecast to have a higher tariff growth in 2014 as currently the tariffs in Dagestan are lower than the average tariff for the Russian Federation (which is supported by short-term Ministry of Economical Development forecast for 2013-2015); post 2017 distribution tariffs were estimated based on the Regulatory Asset Base (RAB) methodology in accordance with the Federal Tariff Service Order N228-e dated 30.03.2012. As per RAB regulated gross revenue should cover all operating expenses (excluding depreciation), tax payments, payback of invested capital and regulatory return on the invested capital (up to 11%). This resulted in annual tariff growing of 2.6% for the remainder of the forecast period for Dagerenergo and 2.2% for the remainder of the forecast period for North Osetia-Alania);
 - forecasted transmission volumes for North Osetia-Alania were determined based on the Company's one year business plan for 2013 and historical transmission volumes with the level of production fixed over the forecast period; forecasted transmission volumes for Dagerenergo were determined based on management's one year business plan for 2013 and Executive order #387 of the Ministry of Energy of the Russian Federation as of 13 August 2012 that implies certain growth (ranging from 2.9% to 5.6% p.a.) in volumes for Dagestan region in 2013-2017;
 - forecasted transmission volumes for the remainder of the forecast period were assumed to be flat based on the 2018 level;
 - operating costs were assumed to increase in line with the consumer price index. For tariff setting purposes under the RAB regulation optimisation decrease of operating costs of 1% was assumed. For Dagerenergo this decrease was also reflected in cash flows based on the analysis of historical and planned data;

- the cash flow forecasts were discounted to their present value at a nominal pre-tax cost of capital of 16.80%;
- the terminal growth rate of the net cash flows was set at 3.2% for Severnaya Ossetia and 3.1% for Dagero and in the post-forecasted period.

As a result of testing as at 31 December 2012 the Group recognized an impairment loss of RUB 342,914 thousand with respect to property, plant and equipment of Dagero classified in the Dagestan Republic segment in the Note 6.

An increase of one percentage point in the post-tax discount rate used would have caused the recognition of an impairment loss of RUB 740,462 thousand. A decrease of 0.75% in the post-tax discount rate used would have resulted in no impairment.

If distribution tariffs for 2014 would have been increased by 23.99% compared to the set distribution tariffs for 2013 the recoverable amount of the tested property, plant and equipment for Dagero would be equal to its book value.

If transmission volumes for 2013 would have been increased by 15.7%, the recoverable amount of the tested property, plant and equipment for Dagero would be equal to its book value.

Transfer to non-current assets for sale

As at 31 December 2012 some items of property, plant and equipment in the amount of RUB 6,825 thousand were classified as "Non-current assets held for sale" (Note 15).

Note 8. Intangible assets

	Certificates and licences	Software	Other	Total
<i>Cost</i>				
Balance at 1 January 2011	24,000	-	-	24,000
Additions	3,589	12,561	-	16,150
Balance at 31 December 2011	27,589	12,561	-	40,150
Balance at 1 January 2012	27,589	12,561	-	40,150
Additions	32,376	14,818	24,146	71,340
Disposals	(26,432)	(5,948)	-	(32,380)
Balance at 31 December 2012	33,533	21,431	24,146	79,110
<i>Amortisation</i>				
Balance at 1 January 2011	(12,396)	-	-	(12,396)
Amortisation charge	(14,629)	(3,183)	-	(17,812)
Balance at 31 December 2011	(27,025)	(3,183)	-	(30,208)
Balance at 1 January 2012	(27,025)	(3,183)	-	(30,208)
Amortisation charge	(13,738)	(4,032)	(240)	(18,010)
Disposals	26,432	5,948	-	32,380
Balance at 31 December 2012	(14,331)	(1,267)	(240)	(15,838)
<i>Net book value</i>				
At 31 December 2011	564	9,378	-	9,942
At 31 December 2012	19,202	20,164	23,906	63,272

Other intangible assets include contracts with third parties for development of new equipment.

Note 9. Deferred tax assets

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Property, plant and equipment	554,948	627,352	(193)	(77)	554,755	627,275
Other non-current assets	2,874	24,775	-	-	2,874	24,775
Inventories	1,237	5,704	(68)	(109)	1,169	5,595
Trade and other receivables and prepayments	521,450	184,619	-	-	521,450	184,619
Loans and borrowings	-	-	-	(22,724)	-	(22,724)
Provisions	8,376	-	-	-	8,376	-
Employee benefits	1,674	2,223	-	-	1,674	2,223
Trade and other payables	8,692	5,399	(282,996)	(125,855)	(274,304)	(120,456)
Other	10	10	(8)	-	2	10
Tax loss carry-forwards	704,381	415,057	-	-	704,381	415,057
Derecognition of deferred tax assets	(807,956)	(444,028)	-	59	(807,956)	(443,969)
Deferred tax assets / (liabilities)	995 686	821,111	(283 265)	(148,706)	712,421	672,405

(b) Movement in temporary differences during the year

	1 January 2012	Recognised in profit or loss	31 December 2012
Property, plant and equipment	627,275	(72,520)	554,755
Other non-current assets	24,775	(21,901)	2,874
Inventories	5,595	(4,426)	1,169
Trade and other receivables and prepayments	184,619	336,831	521,450
Loans and borrowings	(22,724)	22,724	-
Provisions	-	8,376	8,376
Employee benefits	2,223	(549)	1,674
Trade and other payables	(120,456)	(153,848)	(274,304)
Other	10	(8)	2
Tax loss carry-forwards	415,057	289,324	704,381
Unrecognized of deferred tax assets	(443,969)	(363,987)	(807,956)
Net deferred tax assets	672,405	40,016	712,421

	1 January 2011	Recognised in profit or loss	Recognised in equity	31 December 2011
Property, plant and equipment	778,227	(150,952)	-	627,275
Other non-current assets	25,825	(1,050)	-	24,775
Inventories	16,702	(11,107)	-	5,595
Trade and other receivables and prepayments	194,811	(10,192)	-	184,619
Loans and borrowings	-	18,607	(41,331)	(22,724)
Employee benefits	4,005	(1,782)	-	2,223
Trade and other payables	(178,564)	58,108	-	(120,456)
Other	14	(4)	-	10
Tax loss carry-forwards	108,896	306,161	-	415,057
Unrecognized of deferred tax assets	(114,243)	(329,726)	-	(443,969)
Net deferred tax assets	835,673	(121,937)	(41,331)	672,405

Management believes that the Company will have pre-tax income in the future enough to utilize the deferred tax assets.

(c) Unrecognised deferred tax assets

As at 31 December 2012 unrecognised deferred tax assets include deferred tax in the amount RUB 704,381 thousand (as at 31 December 2011 – RUB 415,057 thousand) on losses carried forward and deferred tax in the amount of RUB 103,575 thousand (as at 31 December 2011 – RUB 28,971 thousand) on temporary differences arising in respective of a loss-making subsidiary. These deferred tax assets are not recognised because it is not probable that sufficient taxable profits will be available for this subsidiary against which the deferred tax assets can be utilized.

The deductible temporary differences do not expire under current tax legislation. Tax losses expire in 10 years from their origination in 2022-2023. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available in this subsidiary against which benefits could be utilised.

Note 10. Other non-current assets

	31 December 2012	31 December 2011
Long-term accounts receivable	126,584	139,407
Financial assets related to the employee benefit fund (available-for-sale)	228,866	212,273
Other	288	330
Total	355,738	352,010

Financial assets related to the employee benefit fund relate to the Group contributions accumulated in “solidary” and employees’ individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund). Subject to certain restrictions 80% of contributions to the employee benefit fund can be withdrawn at the discretion of the Group. The Group’s exposure to credit and currency risks and impairment losses related to non-current accounts receivable are disclosed in note 27.

Note 11. Inventories

	31 December 2012	31 December 2011
Raw materials and consumables	708,925	782,357
Other inventories	2,427	2,881
Allowance for obsolescence of inventories	(8,914)	(13,012)
Total	702,438	772,226

Note 12. Trade and other receivables

	31 December 2012	31 December 2011
Trade receivables	4,799,291	2,644,462
Trade receivables impairment allowance	(3,081,535)	(1,377,686)
Other receivables	51,829	35,070
Other receivables impairment allowance	(36,115)	(23,079)
VAT recoverable	313,961	154,420
VAT on advances from customers	400,536	624,318
Prepaid taxes, other than income tax	226,005	241,688
Total	2,673,972	2,299,193

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

Note 13. Prepayments for current assets

	31 December 2012	31 December 2011
Advances given	71,995	138,885
Advances given impairment allowance	(6,000)	(24,312)
Total	65,995	114,573

Note 14. Cash and cash equivalents

	31 December 2012	31 December 2011
Cash at bank and in hand	1,201,108	368,677
Cash equivalents	-	244
Total	1,201,108	368,921

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

Note 15. Non-current assets held for sale

As at 31 December 2012 some items of property, plant and equipment in the amount of RUB 6,919 thousand are classified as "Non-current assets held for sale". The movement in the non-current assets held for sale during the year was as follows:

Balance at 31 December 2011	12,095
Additions	6,825
Disposals	(12,001)
Balance at 31 December 2012	6,919

Note 16. Equity

Share capital

	31 December 2012	31 December 2011
Number of ordinary shares authorised, issued and fully paid	56,092,488	29,532,052
Par value (in RUB)	1.0	1.0
Total share capital (in RUB)	56,092,488	29,532,052

Issuance of additional shares

On 23 November 2011 an Extraordinary General Meeting of Shareholders of the Company approved an increase in charter capital through issuance of additional 44,632,214 ordinary shares with a par value of 1.0 rouble each under an open subscription. The approved offering price was RUB 92.54. This share issuance was registered by the Federal Service for Financial Markets on 28 February 2012. On 20 July 2012 the issuance was completed and 26,560,436 shares were subscribed. The increase in share capital was registered on 3 October 2012. The amount of RUB 26,560 thousand and RUB 2,431,342 thousand respectively were recognised as share capital and additional paid in capital within equity for the year ended 31 December 2012.

Dividends paid and declared

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

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

Loss per share

The calculation of loss per share is based upon the loss for the year and the weighted average number of ordinary shares outstanding during the year. The Company has no dilutive potential ordinary shares.

	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of ordinary shares issued	48,037,787	29,532,052
Loss attributable to the shareholders	(223,402)	(550,907)
Weighted average loss per ordinary share – basic and diluted (in RUB)	(4.65)	(18.65)

Note 17. Loans and borrowings

Non-current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2012	31 December 2011
JSC Sberbank*	7.9	RUB	2016	1,494,711	130,058
JSC Gazprombank*	10.1	RUB	2016	978,433	727,569
JSC FGC UES*	9.0	RUB	2013	-	421,729
Finance lease liability				2,505	6,637
Total non-current debt				2,475,649	1,285,993
Less current portion of long-term debt and finance lease liability				(8,897)	(431,646)
Total				2,466,752	854,347

Current borrowings

	Effective interest rate,%	Currency	Year of maturity	31 December 2012	31 December 2011
JSC IDGC Holding *	-	RUB	2013	1,571,035	1,457,415
JSC Sberbank*	9.9	RUB	2013	906,722	774,473
JSC FGC UES*	9.0	RUB	2013	296,461	-
JSC FGC UES*	-	RUB	2013	125,268	-
Current portion of long-term debt				6,392	427,514
Current portion of finance lease liability				2,505	4,132
Total				2,928,503	2,663,534

*- Loans from government-related entities.

All loans and borrowings listed above are bank borrowings with fixed interest rate.

The Group has not entered into any hedging arrangements in respect of its interest rate exposure.

As at 31 December 2012 and 31 December 2011 all loans and borrowings were unsecured.

Financial lease liabilities are payable as follows:

	2012		2011			
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	2,760	255	2,505	5,520	1,388	4,132
Between one and five years	-	-	-	2,760	255	2,505
Total	2,760	255	2,505	8,280	1,643	6,637

Note 18. Employee benefits

The Group provides the following long-term pension and social benefit plans:

- defined contribution pension plan and defined benefit pension plan (Non-State Pension Fund of the Electric Power and Non-State Pension Fund "Professionalny"); and
- defined benefit pension plans and other long-term defined benefit plans regulated by Collective Bargaining Agreements that include lump sum benefit for pensioners upon retirement, benefits paid in connection with the jubilee dates of pensioners and employees, financial support for pensioners and one-time benefits paid in case of the death of pensioners.

The table below summarises the amounts of defined benefit obligations recognised in the financial statements.

(a) *Amounts recognised in the consolidated Statement of Financial Position are as follows:*

	31 December 2012		31 December 2011	
	Post employment benefits	Other benefits	Post employment benefits	Other benefits
Present value of defined benefit obligations	416,596	20,546	331,348	25,384
Net actuarial loss not recognised in the consolidated Statement of financial position	(97,250)	-	(49,105)	-
Past service cost not recognised in the consolidated Statement of financial position	(102,657)	-	(84,240)	-
Net liability in the consolidated Statement of financial position	216,689	20,546	198,003	25,384

(b) Changes in the present value of the Group's defined benefit obligations are as follows:

	2012		2011	
	Post employment benefits	Other benefits	Post employment benefits	Other benefits
Benefit obligations as at the beginning of the year	331,348	25,384	316,001	7,201
Benefits paid	(40,506)	(5,139)	(18,729)	(1,610)
Current service costs	15,853	2,997	15,283	741
Interest cost	26,652	925	25,142	541
Actuarial gains and (losses)	49,475	8,740	1,303	(3,186)
Past service costs	33,774	(12,361)	(7,652)	21,697
Benefit obligations as at the end of the year	416,596	20,546	331,348	25,384

(c) Amounts recognised in the consolidated statement of comprehensive income:

	2012		2011	
	Post employment benefits	Other benefits	Post employment benefits	Other benefits
Current service costs	15,853	2,997	15,283	741
Interests expenses	26,652	925	25,142	541
Recognised actuarial gains and (losses)	1,330	8,740	2,315	(3,186)
Recognised past service costs	15,357	(12,361)	13,408	21,697
Total periodical pension cost	59,192	301	56,148	19,793

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

(d) Changes in the Group's net benefit obligations are as follows:

	2012		2011	
	Post employment benefits	Other long-term benefits	Post employment benefits	Other long-term benefits
Net benefit obligations as at the beginning of the year	198,003	25,384	160,584	7,201
Net costs for the year	59,192	301	56,148	19,793
Benefits paid	(40,506)	(5,139)	(18,729)	(1,610)
Net benefit obligations as at the end of the year	216,689	20,546	198,003	25,384

(e) Principal actuarial estimations are as follows

Principal actuarial assumptions at the consolidated Statement of Financial Position date (expressed as weighted averages):

	31 December 2012	31 December 2011
Discount rate	7.10%	8.50%
Future salary increases	5.00%	5.50%
Future inflation rate	5.00%	5.50%
Average working life (in years)	12	12
Average period until benefits become vested	5	5
Mortality table	2002	2002

Note 19. Trade and other payables

	31 December 2012	31 December 2011
<i>Non-current accounts payable</i>		
Trade payables	268,038	234,418
Total	268,038	234,418
<i>Current accounts payable</i>		
Trade payables	7,122,262	4,640,475
Other payables and accrued expenses	292,228	268,748
Payables to employees	452,930	335,297
Dividends payable	1,491	1,491
Advances from customers	404,644	2,523,226
Provisions	114,760	25,753
Total	8,388,315	7,794,990

During the period trade payables in the amount of RUB 733,907 thousand were settled by promissory notes issued by Gazprombank (2011: RUB 968,411 thousand).

Provisions relate to legal proceedings and unsettled claims against the Group.

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

Note 20. Other taxes payable

	31 December 2012	31 December 2011
Value added tax payable	214,701	242,313
Payments to social funds	142,828	102,245
Property tax	12,303	10,106
Other taxes	38,939	3,848
Total	408,771	358,512

Note 21. Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity transmission	12,020,334	12,444,655
Rental income	256,331	242,941
Connection services	2,133,856	115,962
Other revenue	143,592	175,024
Total	14,554,113	12,978,582

Other revenue is comprised of installation, repair and maintenance services, transportation services and other sales.

Note 22. Operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Personnel costs (Note 24)	4,249,665	3,978,264
Purchased electricity for compensation of technological losses	2,986,485	3,460,861
Allowance for impairment of trade and other receivables	1,746,261	272,082
Depreciation and amortization	1,266,146	989,205
Electricity transmission	1,068,369	1,038,393
Raw materials and supplies	653,662	690,624
Repairs, maintenance and installation services	640,745	642,754
Impairment of property, plant and equipment	351,471	523,624
Rent	334,591	227,725
Security services	215,742	199,841
Electricity and heat power for own needs	201,199	227,975
Management services	98,512	98,512
Consulting, legal and audit services	42,604	61,588
Taxes other than income tax	56,942	46,621
Social expenditures and charity expenses	55,675	59,262
Business trip expenses	43,512	50,122
Telecommunication and information services	36,875	38,594
Transportation	26,003	20,671
Technological connection services	837	-
Electricity metering services	8,660	22,612
Other expenses	305,674	279,845
Total	14,389,630	12,929,175

Note 23. Other operating income, net

	Year ended 31 December 2012	Year ended 31 December 2011
Insurance payments	1,984	40,497
(Loss) / gain on disposal of property, plant and equipment	(5,081)	13,893
Gain / (loss) on disposal of inventories	1,875	(16,949)
Other income	55,797	8,041
Total	54,575	45,482

Note 24. Personnel costs

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	3,251,583	3,021,167
Payroll taxes	938,588	881,156
Expenses in respect of post-employment defined benefit plan	59,494	75,941
Total	4,249,665	3,978,264

Note 25. Finance income and costs

	Year ended 31 December 2012	Year ended 31 December 2011
Finance income		
Discounting of financial instruments	19,749	22,507
Gain on disposal of financial assets	62,119	32,379
Other	21,234	10,498
Total	103,102	65,384
Finance costs		
Unwinding of discount of financial instruments	55,189	277,031
Interest expenses	29,890	33,888
Financial leasing	1,120	2,335
Total	86,199	313,254

Note 26. Income tax expense

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax expenses		
Current income tax charge	525,669	374,278
Over provided in prior years	(26,290)	(98,289)
	499,379	275,989
Deferred tax expenses		
Tax effect of change in tax base of property, plant and equipment		121,424
Deferred income tax charge	(40,016)	513
	(40,016)	121,937
Total	459,363	397,926

The Group's applicable tax rate in 2012 and 2011 is the income tax rate of 20% for Russian companies. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	Year ended 31 December 2012	%	Year ended 31 December 2011	%
Profit/(loss) before income tax	235,961	100	(152,981)	100
Income tax at applicable tax rate	47,192	20	(30,596)	20
Tax effect of items which are not deductible or taxable for taxation purposes	74,474	32	75,661	(49)
Over provided in prior years	(26,290)	(11)	(98,289)	64
Tax effect of change in tax base of property, plant and equipment	-	-	121,424	(79)
Unrecognized deferred tax assets	363,987	154	329,726	(216)
Total	459,363	195	397,926	(260)

In 2011 the Group recalculated income tax for prior periods (2008-2010) 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.

Note 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 principal objective when managing capital risk is to sustain its creditworthiness and a normal level of capital adequacy for doing business as a going concern, in order to ensure returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of borrowed capital.

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

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

(b) Fair value hierarchy

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities (excluding derivatives) are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis using prices from observable current market transactions.

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)

	31 December 2012	31 December 2011
Level 1	229,054	212,492
Level 2	-	-
Level 3	-	-
Total	229,054	212,492

The financial instruments of the Group carried at fair value represent available-for-sale investments.

(c) 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.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

To manage the credit risk, the Group attempts, to the extent possible, to demand prepayments from customers. As a rule, prepayment for connection services is stipulated by contract and depends on the amount of capacity to be connected.

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

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

Exposure to credit risk

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

	Carrying amount	
	31 December 2012	31 December 2011
Trade and other receivables (net of allowance for impairment)	1,860,054	1,418,174
Cash and cash equivalents	1,201,108	368,921
Other non-current assets (net of allowance for impairment)	228,866	212,273
Total	3,290,028	1,999,368

The Group's ten most significant debtors account for RUB 174,665 thousand of the trade receivables carrying amount at 31 December 2012 (2011: RUB 275,543 thousand).

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

	31 December 2012	31 December 2011
Electricity transmission	3,970,525	2,059,902
Connection services	82,181	5,429
Other sales	873,169	718,538
Less: Allowance for impairment of accounts receivable	(3,081,535)	(1,377,686)
Total	1,844,340	1,406,183

Impairment losses

The aging of receivables at the reporting date was:

	31 December 2012		31 December 2011	
	Gross	Impairment	Gross	Impairment
Not past due	1,073,248	(134,411)	816,425	(13,015)
Past due less than 3 months	811,645	(240,334)	418,690	(17,350)
Past due more than 3 months and less than 6 months	400,169	(172,428)	191,367	(26,701)
Past due more than 6 months and less than 1 year	934,681	(889,766)	315,240	(294,004)
Past due more than 1 year	1,757,960	(1,680,711)	1,077,217	(1,049,695)
Total	4,977,703	(3,117,650)	2,818,939	(1,400,765)

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

	2012	2011
Balance at 1 January	(1,400,765)	(1,129,368)
Increase during the period	(1,785,175)	(318,924)
Amounts written off against trade and other receivables	29,376	685
Decrease due to reversal	38,914	46,842
Balance at 31 December	(3,117,650)	(1,400,765)

The allowance accounts in respect of trade and other receivables are used to record impairment losses, unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable and written off against the financial asset directly.

(d) Liquidity risk

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

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

The contractual maturities of financial liabilities presented including estimated interest payments and excluding the impact of netting agreements:

31 December 2012

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	5,392,750	6,191,054	3,216,220	216,258	216,258	2,542,318	-	-
Financial leasing	2,505	2,760	2,760	-	-	-	-	-
Trade and other payables	8,136,950	8,945,510	7,868,912	-	-	-	-	1,076,598
Total	13,532,205	15,139,324	11,087,892	216,258	216,258	2,542,318	-	1,076,598

31 December 2011

	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Loans and borrowings	3,511,244	3,995,123	2,863,730	83,175	83,175	83,175	881,868	-
Financial leasing	6,637	8,280	5,520	2,760	-	-	-	-
Trade and other payables	5,480,429	6,322,609	5,246,011	-	-	-	-	1,076,598
Total	8,998,310	10,326,012	8,115,261	85,935	83,175	83,175	881,868	1,076,598

(e) 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) Currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates.

The Group operates within the Russian Federation. The major part of the Group's purchases and sales is denominated in RUB. Therefore, the Group's exposure to foreign exchange risk is insignificant.

(ii) Interest rate risk

The Group obtains borrowings mostly at fixed rate and is subject to the limited risk of interest rate changes.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, when making a decision about new loans and borrowings management gives priority to loans and borrowings with fixed rates. As a rule, loan agreements entered into by the Group do not contain any charges for early repayment of loans on borrower's initiative which facilitates additional flexibility in relation to optimizing interest rates in the current economic environment.

The majority of interest rates on long term and short term loans and borrowings are fixed, these are disclosed in Note 17. The Group has no significant interest-bearing assets. Currently the Group does not operate a formal management program focusing on the unpredictability of financial markets or seeking to minimise potential adverse effects on the financial performance of the Group.

Fair values sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(f) Fair values

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

(g) Capital management

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

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

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

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

Note 28. Operating leases

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

Land leases were entered in prior periods and represented land plots on which power lines, equipment for electricity transformation and other assets are located. The land leases typically run for an initial period of 1 to 49 years, with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

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

Non-cancellable operating lease rentals are payable as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Less than one year	338,984	175,664
Between one and five years	350,251	104,962
More than five years	610,634	211,934
Total	1,299,869	492,560

During the year RUB 334,591 thousand was recognised in the statement of comprehensive income in respect of operating leases (2011: RUB 227,725 thousand).

Note 29. Commitments

As at 31 December 2012 the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RUB 3,785,804 thousand (as at 31 December 2011: RUB 4,862,363 thousand).

Note 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) Taxation contingencies

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

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

(c) Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the financial position of the Group.

(d) Environmental matters

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

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

(e) Disagreements with counterparties

In 2012 JSC "Dagestan Power Sales Company", a subsidiary of JSC IDGC Holding, and hence a related party to the Group, recalculated the amounts of services rendered and the compensation for electricity losses for the years 2010 and 2011. As a result of the recalculations, JSC "Dagestan Power Sales Company" disagreed with the previously signed acts of services rendered and compensation of electricity losses and informed the Company about the disagreement for services rendered in the amount of RUB 192,013 thousand and RUB 145,898 thousand for 2010 and 2011 respectively, and for compensation of electricity losses in the amount of RUB 174,215 thousand and RUB 199 689 thousand for 2010 and 2011 respectively.

As JSC "Dagestan Power Sales Company" did not present supporting documents for the revised calculations Dagergoset has no basis to judge the validity of the claim to reconsider the amounts of services rendered and compensation of electricity losses. Management believes that all transactions with JSC "Dagestan Power Sales Company" are recorded properly and presented fairly as at 31 December 2012.

Note 31. Related parties

(a) Control relationships

As at 31 December 2012 and 31 December 2011 JSC IDGC Holding was the parent company of the Company.

The party with ultimate control over the Company is the Government of the Russian Federation, which holds the majority of the voting rights in JSC IDGC Holding.

The majority of the Group's related party transactions are with the subsidiaries of JSC IDGC Holding and other state controlled entities.

(b) Transactions with the parent and entities under common control of the parent

Transactions with the Parent's subsidiaries were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue:		
Electricity transmission	3,655,897	3,882,658
Connection services	256,599	-
Rental income	6,276	6,320
Other revenue	27,109	109,981
Expenses:		
Purchased electricity for compensation of technological losses	1,739,256	2,072,146

All outstanding balances with related parties are to be settled in cash within a year of the Statement of financial position date. None of the balances are secured.

Balances on settlements were as follows:

	31 December 2012	31 December 2011
Trade and other receivables	620,078	212,901
Trade and other payables	4,973,189	3,632,055

Related party revenue for electricity transmission and connection services is based on the tariffs determined by the Government; other related party transmissions are based on normal market prices.

(c) Transactions with other state controlled entities

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for electricity and heat are based on tariffs set by the Federal Service on Tariffs and the regional services on tariffs. Bank loans are provided on the basis of market rates.

Revenues from state-controlled entities for the year ended 31 December 2012 constitute 21.4% (2011 – 11.5%), including 17.1% (2011 – 11.0%) of electricity transmission revenues;

Electricity transmission costs for state-controlled entities for the year ended 31 December 2012 constitute 88.57% (2011 – 97.65%) of total transmission costs.

(d) Transactions with management and close family members

Transactions with companies in which Management of the Company holds executive positions:

	Year ended 31 December 2012	Year ended 31 December 2011
Revenue:		
Rental income	-	231,224

Balances on settlements were as follows:

	31 December 2012	31 December 2011
Trade and other receivables	-	597,651
Trade and other receivables impairment allowance	-	(494,639)
Trade and other payables	-	448

Key management received the following remuneration during the year, which is included in personnel costs:

	Year ended 31 December 2012	Year ended 31 December 2011
Salaries and bonuses	127,216	133,654

Note 32. Events after the reporting period

Share issue

On 15 March 2013 the Extraordinary General Meeting of Shareholders of JSC "IDGC of Northern Caucasus" approved an increase in charter capital through issuance of an additional 125,722,698 ordinary shares with a par value of 1 rouble each under an open subscription. The approved offering price was RUB 25.94.

Change in name

On 23 March 2013 at an Extraordinary General Meeting of Shareholders of JSC IDGC Holding approved changes and additions to the Charter of JSC "IDGC Holding", under which the Company was renamed to JSC "Russian Grids". The respective changes in the Charter of JSC "IDGC Holding" were registered on 4 April 2013 by the Interregional inspectorate of Federal Tax Service of Russia in Moscow city №46.