MOSENERGO Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2012

MOSENERGO Group
Consolidated Statement of Financial Position
(in millions of Russian Roubles)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	190,387	185,295
Investment property	8	792	792
Advances for acquisition of property, plant and equipment		15,728	11,477
Trade and other receivables	12	1,532	5
Other non-current assets	13	3,721	2,234
Total non-current assets		**212,160**	**199,803**
Current assets			
Cash and cash equivalents	14	12,632	25,572
Investments	11	4,833	-
Trade and other receivables	12	29,610	27,147
Inventories	10	6,536	6,880
Income tax receivable		4	3
Other current assets	13	393	1,274
Assets classified as held for sale	9	1,576	1,742
Total current assets		**55,584**	**62,618**
Total assets		**267,744**	**262,421**
EQUITY AND LIABILITIES			
Equity	15		
Share capital		166,124	166,124
Treasury stock		(871)	(871)
Share premium		49,213	49,213
Reserves		83,781	83,837
Accumulated loss		(93,142)	(98,270)
Total equity attributable to equity holders of the Group		**205,105**	**200,033**
Non-controlling interest		531	-
Total equity		**205,636**	**200,033**
Non-current liabilities			
Non-current borrowings	16	16,616	10,223
Deferred tax liabilities	28	25,936	26,061
Employee benefits	17	242	221
Trade and other payables	18	1,125	747
Total non-current liabilities		**43,919**	**37,252**
Current liabilities			
Trade and other payables	18	14,720	18,936
Income tax payable		116	19
Other taxes payable	19	1,120	433
Current borrowings and current portion of non-current borrowings	16	1,898	5,354
Provisions	20	67	93
Liabilities classified as held for sale	9	268	301
Total current liabilities		**18,189**	**25,136**
Total liabilities		**62,108**	**62,388**
Total equity and liabilities		**267,744**	**262,421**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«____»_____________ 2013

MOSENERGO Group

Consolidated Statement of Comprehensive Income

(in millions of Russian Roubles)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	21	157,139	161,119
Other operating income	26	1,927	1,923
Cost of materials	22	(95,542)	(91,980)
Heat transmission		(19,647)	(26,465)
Depreciation of property, plant and equipment	7	(13,716)	(13,041)
Personnel expenses	24	(8,591)	(8,215)
Maintenance and repairs expenses		(5,421)	(4,840)
Other external supplies	23	(3,936)	(3,115)
Taxes other than income tax		(1,511)	(361)
Impairment loss on property, plant and equipment	7	(575)	(7)
Other operating expenses	25	(3,593)	(4,131)
Results from operating activities		**6,534**	**10,887**
Financial income	27	1,608	1,277
Financial expenses	27	(128)	(198)
Profit before income tax		**8,014**	**11,966**
Income tax expense	28	(1,698)	(2,074)
Profit for the year		**6,316**	**9,892**
Other comprehensive loss:			
Impairment loss on property, plant and equipment	28	(56)	(1,069)
Revaluation of available-for-sale financial assets	28	-	(5)
Other comprehensive loss for the year, net of tax		**(56)**	**(1,074)**
Total comprehensive income for the year		**6,260**	**8,818**
Profit attributable to:			
Equity holders of the Group		6,316	9,892
Non-controling interest		-	-
Basic and diluted earnings per share (in Russian Roubles)	29	**0.16**	**0.25**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«____»_____________ 2013

MOSENERGO Group
Consolidated Statement of Cash Flows
(in millions of Russian Roubles)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flow from operating activities			
Profit before income tax		**8,014**	**11,966**
Adjustments for:			
Depreciation of property, plant and equipment	7	13,716	13,041
Trade and other receivables impairment loss and derecognition	25	1,153	1,616
Financial income	27	(1,613)	(1,277)
Financial expenses	27	128	198
Loss on disposal of property, plant and equipment	25	253	74
Litigations provision charge	20	112	117
Gain from disposal of assets classified as held for sale	26	(501)	(537)
Impairment loss on assets classified as held for sale	25	11	15
Impairment loss on property, plant and equipment	7	575	7
Loss on change in fair value of investment property	25	-	61
Other non-cash items		(5)	(2)
Operating cash flows before changes in working capital and provisions		**21,843**	**25,279**
Change in inventories		299	(470)
Change in trade and other receivables		(3,715)	(7,475)
Change in other current and non-current assets		(92)	(430)
Change in trade and other payables		(4,393)	2,367
Change in taxes payables, other than income tax		943	183
Change in employee benefit		(2)	3
Change in provisions		(138)	(95)
Cash flows from operations before income tax and interest paid		**14,745**	**19,362**
Income tax paid		(2,002)	(2,800)
Cash flows from operating activities		**12,743**	**16,562**
Cash flows used in investing activities			
Proceeds from sale of assets classified as held for sale		799	1,361
Proceeds from sale of property, plant and equipment		23	89
Proceeds from disposal of available-for-sale financial assets		-	6
Interest received		754	1,137
Acquisition of property, plant and equipment		(22,013)	(17,191)
Acquisition of investments		(4,331)	-
Acquisition of subsidiary, net cash acquired		(542)	-
Interest paid and capitalised		(929)	(1,606)
Debt fee		(257)	(368)
Cash flows used in investing activities		**(26,496)**	**(16,572)**
Cash flows from/(used in) financing activities			
Proceeds from borrowings		7,568	3,021
Repayment of borrowings		(5,583)	(4,997)
Dividends paid		(1,167)	(776)
Cash flows from/(used in) financing activities		**818**	**(2,752)**
Net decrease in cash and cash equivalents		**(12,935)**	**(2,762)**
Cash and cash equivalents at the beginning of the year	14	25,572	28,334
Exchange loss on cash and cash equivalents		(5)	-
Cash and cash equivalents at the end of the year	14	**12,632**	**25,572**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«____»______________ 2013

	Note	Attributable to equity holders of the Group						Non-controling interest	Total Equity
		Share capital	Treasury stock	Share premium	Reserves	Accumulated loss	Total		
Balance at 1 January 2011		**166,124**	**(871)**	**49,213**	**84,911**	**(107,370)**	**192,007**	**-**	**192,007**
Profit for the year		-	-	-	-	9,892	9,892	-	9,892
Other comprehensive income for the year:									
Revaluation of available-for-sale financial assets	28	-	-	-	(5)	-	(5)	-	(5)
Impairment loss on property, plant and equipment	28	-	-	-	(1,069)	-	(1,069)	-	(1,069)
Total comprehensive income for the year		-	-	-	**(1,074)**	**9,892**	**8,818**	**-**	**8,818**
Dividends to shareholders		-	-	-	-	(792)	(792)	-	(792)
Balance at 31 December 2011		**166,124**	**(871)**	**49,213**	**83,837**	**(98,270)**	**200,033**	**-**	**200,033**
Balance at 1 January 2012		**166,124**	**(871)**	**49,213**	**83,837**	**(98,270)**	**200,033**	**-**	**200,033**
Profit for the year		-	-	-	-	6,316	6,316	-	6,316
Other comprehensive income for the year:									
Impairment loss on property, plant and equipment	28	-	-	-	(56)	-	(56)	-	(56)
Total comprehensive income for the year		**-**	**-**	**-**	**(56)**	**6,316**	**6,260**	**-**	**6,260**
Dividends to shareholders		-	-	-	-	(1,188)	(1,188)	-	(1,188)
Non-controling interest arising from business combination		-	-	-	-	-	-	531	531
Balance at 31 December 2012		**166,124**	**(871)**	**49,213**	**83,781**	**(93,142)**	**205,105**	**531**	**205,636**

General Director V.G. Yakovlev

Chief Accountant E.Y. Novenkova

«____»_____________ 2013

Note 1. The Group and its operations

(a) Organisation and operations

The Open Joint Stock Company “Mosenergo” (the “Company”) and its subsidiaries (together referred as the “Group” or the “Mosenergo Group”) are primarily involved in generation of heat and electric power and heat distribution services in the Moscow city and Moscow region.

The Group’s power and heat generation base includes 15 power plants with operational capacity equaled approximately 12,299 megawatts (“MW”) and 35,011 gigacalories/hour (“Gkal/h”) of electricity and heat capacity.

OJSC “Mosenergo” was registered under the legislation of the Russian Federation at 6 April 1993 in accordance with State Property Management Committee Decree 169-R dated 26 March 1993 following the privatisation process of electricity and heat power generation, transmission and distribution assets formerly under control of the Ministry of Energy of the Russian Federation .

The Company’s registered office is located at 101/3, Prospekt Vernadskogo, Moscow, 119526, Russian Federation.

(b) Group formation

At 1 April 2005, the Company was reorganised through a spin-off following the reorganisation process within the Russian electricity sector aimed to introduce competition into the electricity market and to enable the companies of electricity sector to maintain and further expand production capacity. The Company’s restructuring was approved by general shareholder’s meeting at 28 June 2004. Before the restructuring took place the Company operated as an integrated utility model, which included generation, transmission and distribution activities. As a result of the restructuring 13 new entities were separated from the Company and each shareholder of the Company received ordinary shares of each of the separated entities pro rata to Company’s shares held by them prior to spin-off.

A general shareholders’ meeting held at 20 December 2006 approved a closed subscription for the additional shares issued in favour of OJSC “Gazprom” and its affiliates (together referred as the “Gazprom Group”). As a result, the majority shareholder of OJSC “Mosenergo” changed from RAO UES of Russia to Gazprom Group holding 53.49% of ordinary shares. Following the reorganisation process, an extraordinary general shareholder’s meeting of RAO UES of Russia at 26 October 2007 approved the spin-off of several holding companies to which shares in electricity generation companies, including OJSC “Mosenergo”, held by RAO UES of Russia, were transferred. Holdings separated from RAO UES of Russia were merged with generation companies by means of shares conversion, which enabled the shareholders of RAO UES of Russia to receive direct shares in generation companies after reorganisation. Accordingly, upon spin-off from RAO UES of Russia OJSC “Mosenergo Holding” (the “Mosenergo Holding”) received stake in OJSC “Mosenergo” held by RAO UES of Russia. Simultaneously with the spin-off “Mosenergo Holding” was merged with the Company and its shares were converted into the Company’s shares.

In February 2009, the Company’s Board of Directors approved a program to improve the Company’s organisational structure, which is aimed to concentrate production resources, optimise the labor capacity and supply chain. Organisational structure optimisation included the merge of several production branches situated geographically close to each other and reallocation and outsourcing of non-core functions.

In April 2009 OJSC “Gazprom” transferred its 53.49% share in the Company to its 100% subsidiary LLC “Gazprom energoholding” (previously - LLC “Gazoenergeticheskaya Kompaniya”) which became the parent company of OJSC “Mosenergo”.

(c) Business environment

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation (Note 32).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management assessed possible impairment of the Group's property, plant and equipment by considering the current economic environment and outlook. The future economic and regulatory situation may differ from management’s current expectations.

(d) Relations with the state and current regulation

At the end of the reporting period the Russian Federation owned (both direct and indirect ownership) over 50% in OJSC “Gazprom” (the previous “Parent”), which held 53.49% of the Company through its 100% subsidiary LLC “Gazprom energoholding” (immediate parent company). Thus the OJSC “Gazprom” is the ultimate parent company of the Group and the Russian Federation is the ultimate controlling party of the Group.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale and retail sales of electricity and heat exercised by the Federal Service on Tariffs (the "FST") and the Regional Energy Commissions of Moscow and Moscow region (the "RECs"). JSC "System Operator of the United Power System" (the "SO UES"), which is controlled by the Russian Federation, regulates operations of generating assets of the Group.

The Group's customer base as well as suppliers' chain includes a large number of entities controlled by or related to the state.

As described in Note 6 and Note 32, the government's economic, social and other policies could materially affect operations of the Group.

(e) Industry restructuring

Following the restructuring of the Russian electric utility sector aimed to introduce competition to the electricity (capacity) market, the New Wholesale Electric Power (capacity) Market Rules of the Transitional period (the "NOREM"), approved by Resolution of the Government of the Russian Federation № 529 dated 31 August 2006, were adopted. Under this new framework, electricity and capacity purchase-sales transactions in the regulated market sector are to be governed by a regulated bilateral contract system. Starting 1 September 2006 regulated contracts covered all volumes of electricity and capacity produced and consumed.

Starting 2007, the volumes of electricity and capacity traded in the wholesale market applying regulated prices are to be substantially reduced pursuant to Russian Federation Government Resolution No. 205 dated 7 April 2007 "On amending certain resolutions of the Russian Federation Government related to the calculation of electricity volumes sold at free (competitive) prices". The Resolution states that electricity and capacity supplied at regulated prices will gradually decrease.

Electricity volumes produced, not covered by the regulated contracts, is traded at unregulated prices on the basis of free bilateral contracts or on a day-ahead market. Under free bilateral contracts market participants have the right to choose contracting parties, prices and volumes. The day-ahead market is based on competitive selection of bids submitted by suppliers and buyers the day before the electricity is supplied.

Starting 2012 the majority of the contracts for electricity and capacity supply engaged at unregulated prices: free bilateral contracts or on a day-ahead market.

The introduction of the new wholesale market also covered capacity trading. Before the new market rules launch, suppliers were paid only for 85% of installed capacity at a flat-rate tariff. The new rules result in separate tariffs for electricity and capacity. Capacity tariffs are planned to be established at levels sufficient to maintain generation facilities of producers.

According to Russian Federation Government Resolution № 1172 of 27 December 2010 starting 1 January 2011 the capacity is supplied using the following schemes at the wholesale market:

- capacity trading at regulated prices (tariffs) based on sales contracts in volume, intended for supply to the population and consumer groups equivalent to the population;
- supply of capacity at open (unregulated) prices based on competitive selection of capacity: capacity trading by open contracts on capacity sale – provided that this capacity is selected on the basis of competitive selection of capacity;
- delivery of capacity according to contracts for provision of facilities: capacity trading by contracts on sale of capacity produced with the use of generating supply;
- capacity which comes in a forced regime (the generating facilities that are not selected as a result of a competitive selection, supporting their further work, which is necessitated by technological and other reasons).

Contract for provision of facilities provided on the one hand the obligation of suppliers to implement the approved investment program, on the other hand give a guarantee of payment capacity of the new (upgraded) generating facilities.

(f) Scope of consolidation

OJSC "Mosenergo" and its following subsidiaries form the the Mosenergo Group:

	Percentage of ownership	
	31 December 2012	**31 December 2011**
LLC "TSK Mosenergo"	100%	100%
LLC "Centralny remontno-mekhanicheskiy zavod"	100%	100%
LLC "OGK-Investproject"	51%	-

On 20 September 2012 the Group acquired a 51% interest in LLC "OGK-Investproject" and obtained control over

LLC “OGK-Investproject”. The company carries out construction of the power unit at Cherepovets GRES.

Note 2. Basis of preparation

(a) Statement of compliance

These consolidated 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 and investment property are revalued periodically; available-for-sale financial assets are measured at fair value; and the carrying amounts of equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, GosKomStat. Russia ceased to be hyperinflationary for IFRS purposes at 1 January 2003.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (RR), which is the Group’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

(d) Use of estimates and judgment

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 4 – Fair value determination of property, plant and equipment;
- Note 4 – Fair value determination of investment property;
- Note 4 – Fair value determination of trade and other receivables, and
- Note 33 – Aggregation of operating segments.

Note 3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis at: the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group’s equity.

(ii) Transfers of subsidiaries from parties under common control

Transfers of subsidiaries between parties under common control are accounted for using the predecessor basis of accounting method. Under this method the assets and liabilities of the subsidiary transferred under common control are

recognised at the predecessor entity's carrying amounts. The financial statements incorporate the acquired entity's results from the date on which the transaction ocurred. The corresponding figures of the previous year are not restated. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment within equity.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) 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 transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at the 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 period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(c) Financial instruments

(i) Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise of cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and receivables consist of financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates at fair value through profit or loss.

Held-to-maturity investments

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

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains or losses on available-for-sale monetary items, are recognised directly in other comprehensive income. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Share capital

Ordinary shares

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

Repurchase of share capital (treasury stock)

When share capital recognised as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(d) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are subject to revaluation on a regular basis to ensure that the carrying amount does not differ materially from that, which would be determined using fair value at the balance sheet date. Increase in the carrying amount of property, plant and equipment as a result of revaluation is credited directly to other comprehensive income under the heading revaluation reserve, unless the decrease of the reserve was previously recognised in profit or loss. Decrease in the carrying amount shall be debited to other comprehensive income to the extent of any credit balance existing in the revaluation reserve. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revaluated amount of the asset.

The tax effects from the revaluation of property, plant and equipment are recognised in other comprehensive income and accumulated in equity.

Cost of acquired assets includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labor and 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

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.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in “other operating expenses” in profit or loss. The revaluation surplus is not transferred from reserve when the assets are disposed.

(ii) Reclassification to investment property

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Reclassification to assets held-for-sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell. Any gain arising on remeasurement is recognised in profit or loss to the extent the gain reverses previous impairment loss on a specific property, with any remaining gain recognised in the revaluation reserve directly in other comprehensive income. Any loss is recognised in the revaluation reserve directly in other

comprehensive income to the extent that an amount of revaluation is included in other comprehensive income relating to a specific property, with any remaining loss recognised immediately in profit or loss.

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

(v) Depreciation
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. 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 lease term. Depreciation of an asset begins when it is available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. The estimate useful lives for the year 2011 were not changed for the year 2012 and were as follows:

- Buildings and constructions 20-60 years
- Plant and equipment 10-30 years
- Transmission networks 5-30 years
- Other 1-15 years

(e) Intangible assets

(i) Other intangible assets
Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

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

(iii) Amortisation
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives of the software for the current and comparative periods equal to 7 years.

(f) Investment property

Investment property is property or construction in progress held or constructed either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Any change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

When the carrying amount of property is to be recovered principally through a sale transaction rather than through continuing use the property is remeasured to fair value and reclassified as assets held for sale. Any gain or loss on the remeasurement recognised in profit or loss.

(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.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Impairment losses for available-for-sale financial assets are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in other comprehensive income if revaluation reserve existing to such assets, otherwise in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(i) Non-current assets held for sale

Non – current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial recognition as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

(k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group 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 are recognised as an employee benefit expense in profit or loss when they are due.

(ii) Defined benefit plans

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

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

Actuarial gains and losses which arise in the reporting period stay unrecognised. The Group recognises a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised for each defined benefit plan is the excess determined as described above, divided by the expected average remaining working lives of the employees.

(iii) Other long-term employee benefits

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

(iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(v) 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.

(l) 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.

(m) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief operating decision-maker. The Chief operating decision-maker responsible for allocating resources and assessing performance of the operating segments has been identified as the Board of Directors including Chief Executive Officer who make strategic decisions.

(n) Revenues

(i) Goods sold

Revenues from sales of electricity and heat are recognised when electricity and heat are supplied to customers.

Revenue from the sale of goods other than electricity and heat is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(o) Government subsidies

Government subsidies are assistance by government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Company.

Government subsidies are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the subsidy. Subsidies that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Government subsidies that compensate the Company for the cost of an asset are recognised in the statement of comprehensive income on a systematic basis over the useful life of the asset. Unconditional government subsidies are recognised on profit or loss when subsidy becomes receivable. Government subsidies for the compensation of the difference between tariffs set to the urban population and the tariffs of the Company are recognised as income and included in other operating income.

(p) Lease payments

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

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

(q) Financial income and expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. 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, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method except for those which are capitalised.

Foreign currency gains and losses are reported on gross basis.

(r) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the consolidated statement of changes in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable the profit or loss, and differences relating to

investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for 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 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 liabilities and assets, 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.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the 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.

(s) Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

(t) 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. Diluted EPS is determined by adjusting profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees. There are no dilutive potential ordinary shares as of 31 December 2012 and 31 December 2011.

(u) New Standards and Interpretations

(i) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

- IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate

financial statements" and SIC-12 "Consolidation - special purpose entities". The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities-Non-Monetary Contributions by Ventures". The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). The Group expected that the revised standard does not have any effect on its financial statements.

- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The revised standard will have an impact on disclosures but will have no effect on measurement across IFRSs.

- IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group expected that the revised standard does not have any effect on its financial statements.

- IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group expected that the revised standard does not have any effect on its financial statements.

- Amended IAS 34, Annual Improvements, (revised in 2011 and effective for annual periods beginning on or after 1 January 2013), to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8. The amended IAS 34 will now require the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when:

– The amount is regularly provided to the entity's chief operating decision maker, and
– There is a material change from the amount disclosed for that segment in the last annual financial statements.

- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group expected that the revised standard does not have significant effect on its financial statements.

- Amendments to IFRS 7, Financial Instruments: Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) require disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Group expected that the revised standard does not have any effect on its financial statements.

- Amendments to IFRS 32, Classification of Rights Issues (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014) added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group expected that the revised standard does not have any effect on its financial statements.

- Amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.
- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The Group is currently assessing the impact of the amendments on its consolidated financial statements.
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 1 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group is currently assessing the impact of the amendments on its consolidated financial statements.
- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards - Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities.
- IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

(ii) The following new standards and interpretations became effective for the Group from 1 January 2012:

- "Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. This change did not have a material impact on these consolidated financial statements.

- Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these consolidated financial statements.

Note 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the methods, described further. 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 and investment property

The fair value of property, plant and equipment and investment property is determined either using market approach, depreciated replacement cost or income approach.

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, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined applying depreciated replacement cost method or income approach. The depreciated replacement cost method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence. Under the income approach, the values of the property are derived from the present value of future cash flows expected to be derived from the use and eventual sale of the property.

(b) Investments in equity and debt securities

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

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

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

Note 5. Financial risk management

(a) Overview

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

- credit risk;
- liquidity risk, and
- 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 General Director has overall responsibility for proper functioning of the Group's internal controls system. The Board of Directors establishes and oversights of the Group's risk management framework and control environment mitigating those risks. The Audit Committee as part of Board of Directors evaluates the internal controls system effectiveness. The Group's Audit Committee is assisted in its oversight role by the Director of Internal Audit, who oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Direction of Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management functions are performed by several departments of the Company. Credit risk is considered by the Department on Account and Analysis of Financial Risks. Liquidity risk is addressed by the Treasury Department and the Department on Budgeting and Managerial Accounting. These departments are accountable to the Deputy General Director on Finance and Budgeting who supervises and coordinates the work of the risk management system.

The Group's risk management policies are summarised in the Company's Regulations on Risk Management which are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The procedures carried out in relation to the Company's risk analysis include examination of the customers reliability, analysis of bank guarantees for prepayments given to suppliers, bank currency position analysis, sensitivity analysis of exchange and interest rates for borrowings, budget implementation analysis etc.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive internal control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Geographically credit risk is concentrated in the city of Moscow and Moscow Region as most of sales are made in this area. Creditworthiness of existing customers is periodically evaluated based on internal and external information regarding history of settlements with these customers. The Group constantly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due. Approximately 90-95% of the customers are the clients of the Group for a period longer than 2-3 years.

There are standard contract terms for any customer purchasing energy under regulated contracts, the day-ahead market or the balancing market. Individual terms can be stipulated in free bilateral contracts for electricity (capacity). Special conditions are envisaged by the Russian legislation on Power industry for some heat consumers such as state companies, housing organisations and entities, which may not be limited or refused energy supply because it can lead to casualties or other harmful aftermath (hospitals, schools etc.). Currently no upper limits for debt due from a single customer are established. Gradually the Group plans to switch to 100% prepayment approach when the transitional period from regulated to free bilateral selling contracts will be completed.

In monitoring customer credit risk, customers are grouped according to the accounts receivable type and maturity dates. Accounts receivable are divided into five major groups, which are current, overdue, long-term, doubtful and irrecoverable accounts receivable. As early as an account receivable is classified as current measures are taken on collection of debt due, which include oral and written notices, instituting a claim, putting in a late payment penalty etc.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to

individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Guarantees

The Group's policy does not stipulate providing any financial guarantees for customers.

(iii) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of at least A3 from Moody's and Aaa from Moody's, except for related parties. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

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

The liquidity risk management is performed on three different levels. Long-term policies are incorporated in the overall financial model of the Company. Middle-term monitoring is fulfilled during the quarterly and monthly planning of the Group's budgets. Short-term actions include planning and control of daily cash receipts and payments of the Company.

Liquidity management system includes also drawing up monthly, quarterly and yearly cash budgets, comparing actual amounts to planned and explaining any discrepancies found.

(d) Market risk

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

(i) Currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions primarily are denominated are Euro.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

To minimise currency risk the Group prepares budgets taking into account possible changes in exchange rates, creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks by means of corresponding derivatives in the future.

(ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

The Group constantly analyses dynamics of variable interest rates. To minimise interest rate risk the Group prepares budgets taking into account possible changes of interest rates creates special reserves to cover contingent expenses and losses. Currently the Group considers the possibility of hedging currency risks using corresponding derivatives in the future.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines

as net operating profit divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

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

The gearing ratios at 31 December 2012 and at 31 December 2011 were as follows:

	31 December 2012	**31 December 2011**
Borrowings (Note 16)	(18,514)	(15,577)
Cash and cash equivalents (Note 14)	12,632	25,572
Net (debt)/cash	(5,882)	9,995
Equity	(205,636)	(200,033)
Total capital	**(211,518)**	**(190,038)**
Gearing ratio	**2.78%**	**-**

(i) Loans' covenants

In accordance with loan facilities the Group maintains an optimal capital structure by tracking certain requirements:

- the maximum level of Net financial Debt/EBITDA;
- minimum level of EBITDA/Interest expense, and
- minimum level of own paid tangible assets.

These ratios are included as covenants into loan agreements (see Note 16). The Group is in compliance with externally imposed capital requirements.

(ii) Legislation requirements

The Group is subject to the following externally imposed capital requirements that have been established for joint stock companies by the legislation of Russian Federation:

- share capital cannot be lower than 1,000 minimum shares at the date of the company registration;
- if the share capital of the entity is greater than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets, and
- if the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

At 31 December 2012, the Group was in compliance with the above share capital requirements.

Note 6. Related party transactions

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions during the year ended 31 December 2012 and the year ended 31 December 2011, or had significant balances outstanding at 31 December 2012 and at 31 December 2011 are detailed below. OJSC "Gazprom" is an ultimate Parent Company of OJSC "Mosenergo" during the current and prior reporting periods. The Russian Federation is the ultimate controlling party of the Group during the current and prior reporting periods.

(a) Transactions with Gazprom Group and its associates

The Group has the following turnover and balances outstanding with Gazprom Group and its associates (entities under common control).

Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Heat	568	532
Electricity	396	400
Other revenue	39	15
Total	**1,003**	**947**

Expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Fuel expenses	(80,469)	(77,804)
Security services	(7)	(7)
Purchased electricity	(2)	(7)
Other operating expenses	(791)	(368)
Total	**(81,269)**	**(78,186)**

Other operating expenses for the year ended 31 December 2012 are from OJSC “Neftyanoi dom”, associate of OJSC “Gazprom”, in the amount of RR 283 million (for the year ended 31 December 2011: RR 267 million).

Financial income and expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Financial income	586	368
Financial expense	(31)	-
Net financial income	**555**	**368**

Financial income for the year ended 31 December 2012 and for the year ended 31 December 2011 are from OJSC “Gazprombank”, associate of OJSC “Gazprom”.

Outstanding balance

	Outstanding balance at 31 December 2012	Outstanding balance at 31 December 2011
Advances for acquisition of property, plant and equipment	12,676	-
Investments	4,495	-
Cash and cash equivalents	1,607	9,546
Trade and other receivables	423	264
Total assets	**19,201**	**9,810**
Trade and other payables	(3,943)	(750)
Total liabilities	**(3,943)**	**(750)**

Trade and other receivables include an outstanding balance with OJSC “Gazprombank”, associate of OJSC “Gazprom”, in the amount of RR 128 million at 31 December 2012 (at 31 December 2011: RR 96 million).

Cash and cash equivalents at 31 December 2012 and at 31 December 2011 are from OJSC “Gazprombank”, associate of OJSC “Gazprom”.

Investments at 31 December 2012 are deposits from OJSC “Gazprombank”, associate of OJSC “Gazprom”.

Trade and other payables include an outstanding balance with LLC "Gazprom mezhregiongaz Moskva" associate of OJSC "Gazprom", in the amount of RR 2,367 million at 31 December 2012 (at 31 December 2011: RR 735 million).

Borrowings

	Amount loaned for the year ended 31 December 2012	Amount loaned for the year ended 31 December 2011	Outstanding balance at 31 December 2012	Outstanding balance at 31 December 2011
Non-current borrowings	1,700	-	1,700	-
Total borrowings	**1,700**	**-**	**1,700**	**-**

(b) Transactions with key management

Key management personnel (the members of the Board of Directors and Management Committee of the Group) received the following remuneration, which is included in personnel expenses:

Expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	(96)	(146)
Social taxes and contributions	(11)	(2)
Termination benefits	(3)	(46)
Total	**(110)**	**(194)**

There are no outstanding balances at 31 December 2012 and at 31 December 2011 as for transactions with key management.

(c) Transactions with other state-controlled entities

Information below excludes transactions and outstanding balances with Gazprom Group and its associates as disclosed in Note 6(a).

In the normal course of business the Group enters into transactions with other entities under control of government of the Russian Federation.

Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity	81,658	73,454
Heat	54,300	58,927
Other revenue	2,116	1,733
Total	**138,074**	**134,114**

Expenses

	Year ended 31 December 2012	Year ended 31 December 2012
Heat transmission	(19,647)	(26,465)
Purchased heat and electricity	(9,920)	(10,836)
Electricity market administration fees	(1,234)	(1,154)
Water usage expenses	(1,197)	(1,112)
Security services	(373)	(335)
Fuel expenses	(130)	(144)
Fire prevention services	(60)	(75)
Other operating expenses	(756)	(915)
Total	**(33,317)**	**(41,036)**

Financial income and expenses

	Year ended 31 December 2012	Year ended 31 December 2012
Financial income	493	268
Net financial income	**493**	**268**

Outstanding balance

	Outstanding balance at 31 December 2012	Outstanding balance at 31 December 2011
Trade and other receivables	18,425	17,032
Cash and cash equivalents	4,675	14,206
Other non-current assets	523	-
Other current assets	-	523
Total assets	**23,623**	**31,761**
Trade and other payables	(3,461)	(8,341)
Total liabilities	**(3,461)**	**(8,341)**

The Group is a party of Capacity Supply Contracts, see Note 32.

Note 7. Property, plant and equipment

Appraised value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2011	**100,453**	**65,784**	**10,894**	**5,107**	**20,925**	**203,163**
Additions	8	-	-	4	23,390	23,402
Disposals	(130)	(34)	(5)	(94)	(1)	(264)
Transfers	6,191	8,879	211	1,889	(17,170)	-
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(482)	(22)	-	(7)	-	(511)
Transfer to assets classified as held for sale	(1,672)	(96)	-	(8)	-	(1,776)
Balance at 31 December 2011	**104,368**	**74,511**	**11,100**	**6,891**	**27,144**	**224,014**
Balance at 1 January 2012	**104,368**	**74,511**	**11,100**	**6,891**	**27,144**	**224,014**
Acquisition of subsidiary	-	53	-	-	1,682	1,735
Additions	46	1	-	365	17,968	18,380
Disposals	(554)	(263)	(64)	(77)	(1)	(959)
Transfers	471	3,368	632	1,284	(5,755)	-
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	(131)	(1)	-	-	-	(132)
Transfer to assets classified as held for sale	(97)	-	-	-	-	(97)
Balance at 31 December 2012	**104,103**	**77,669**	**11,668**	**8,463**	**41,038**	**242,941**

Accumulated depreciation (including impairment)

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
Balance at 1 January 2011	**(12,423)**	**(7,609)**	**(2,518)**	**(2,136)**	**(253)**	**(24,939)**
Depreciation charge	(6,233)	(4,413)	(1,347)	(1,048)	-	(13,041)
Disposals	28	17	2	46	-	93
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	482	22	-	7	-	511
Impairment loss	(1,343)	-	-	-	-	(1,343)
Balance at 31 December 2011	**(19,489)**	**(11,983)**	**(3,863)**	**(3,131)**	**(253)**	**(38,719)**
Balance at 1 January 2012	**(19,489)**	**(11,983)**	**(3,863)**	**(3,131)**	**(253)**	**(38,719)**
Depreciation charge	(6,333)	(4,719)	(1,428)	(1,236)	-	(13,716)
Disposals	198	107	42	47	-	394
Elimination of accumulated depreciation on property, plant and equipment transferred to assets classified as held for sale	131	1	-	-	-	132
Reversal of impairment loss on property, plant and equipment	-	-	16	-	-	16
Impairment loss on property, plant and equipment	(1)	(320)	-	(4)	(336)	(661)
Balance at 31 December 2012	**(25,494)**	**(16,914)**	**(5,233)**	**(4,324)**	**(589)**	**(52,554)**

Net book value

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2011	88,030	58,175	8,376	2,971	20,672	**178,224**
At 1 January 2012	84,879	62,528	7,237	3,760	26,891	**185,295**
At 31 December 2012	78,609	60,755	6,435	4,139	40,449	**190,387**

Net book value had no revaluation taken place

	Buildings and constructions	Plant and equipment	Transmission networks	Other	Construction in progress	Total
At 1 January 2011	32,934	43,522	1,719	1,995	16,383	**96,553**
At 1 January 2012	36,467	48,581	1,705	2,610	22,244	**111,607**
At 31 December 2012	34,931	48,360	2,053	3,517	33,284	**122,145**

Borrowing costs of RR 926 million and RR 1,675 million for the year ended 31 December 2012 and 31 December 2011, respectively, are capitalised in additions above. Capitalisation rates of 8.98% and 10.75% for the year ended 31 December 2012 and 31 December 2011, were used to determine the amount of borrowing costs eligible for capitalization. The capitalization rate represented the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

There were no properties pledged as security for Company's bank loans at 31 December 2012 and at 31 December 2011.

(a) Revaluation

The Group changed its accounting policy in respect of property, plant and equipment measurement from cost model to revaluation model starting from 1 January 2007 in order to provide users of the financial statements with more reliable information about the value of the Group's property, plant and equipment.

The appraised value of property, plant and equipment presented above was estimated as fair value by independent appraiser at 31 December 2008.

In 2012 the Group determined that the carrying amount of property, plant and equipment does not differ materially from that which would be determined using fair value at the end of reporting period and, therefore, revaluation was not performed at 31 December 2012.

(b) Impairment test

The Group assessed at 31 December 2012 and at 31 December 2011 whether there were any indicators that the Group assets may be impaired. The Company has recognized 661 million of impairment at the reporting date related to assets which would be taken out of operation.

(c) Leased assets

The Group leases production plant and equipment under a number of finance lease agreements. All leases provide the Group with the option to purchase the buildings and equipment at a beneficial price. The leased plant and equipment secures lease obligations (see Note 31). At 31 December 2012 the net carrying amount of leased plant and equipment was RR 252 million (at 31 December 2011: RR 230 million).

Note 8. Investment property

	2012	2011
Balance at 1 January	**792**	**898**
Change in fair value	-	(61)
Transfer to assets classified as held for sale	-	(45)
Balance at 31 December	**792**	**792**

The fair value of the Group's investment property at 31 December 2012 was determined to be RR 792 million (at 31 December 2011: RR 792 million) and based on the market trends for the year 2012 (at 31 December 2011: on trends for the year 2011).

Rental income for the year ended 31 December 2012 and for the year ended 31 December 2011 amounted to RR 80 million and RR 103 million, respectively, was recognised in profit and loss in other revenue.

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	31 December 2012	31 December 2011
Less than one year	78	108
Between one and five years	-	-
More than five years	-	-
Total	**78**	**108**

Note 9. Disposal group classified as held for sale

(a) Assets classified as held for sale

	31 December 2012	31 December 2011
Property, plant and equipment	1,544	1,700
Investment property	32	42
Total	**1,576**	**1,742**

(b) Liabilities classified as held for sale

	31 December 2012	31 December 2011
Deferred tax liabilities	268	301
Total	**268**	**301**

During the year ended 31 December 2012 the Group was in the process of disposing non-core assets which led to transfers to assets classified as held for sale from property, plant and equipment assets in the amount of RR 97 million and from investment property in the amount of RR 0 million (for the year ended 31 December 2011: RR 1,776 million and RR 45 million, respectively).

At 31 December 2012 the Group is in possessing of assets for disposal in the amount RR 1,576 million and the corresponding liabilities in the amount of RR 268 million (at 31 December 2011: RR 1,742 million and RR 301 million, respectively). The Group envisages selling its real estate portfolio listed above during 2013.

During the year ended 31 December 2012 the Company sold assets classified as held for sale in the amount of RR 252 million with gain on disposal recognised in profit and loss in the amount of RR 501 million that is disclosed in Note 26 (for the year ended 31 December 2011: RR 818 million and RR 537 million, respectively).

Note 10. Inventories

	31 December 2012	31 December 2011
Fuel	4,478	4,994
Raw materials and consumables	2,058	1,847
Other inventories	-	39
Total	**6,536**	**6,880**

Raw materials and consumables are stated net of a provision for obsolete inventory amounting to RR 10 million and RR 12 million at 31 December 2012 and at 31 December 2011, respectively. The write-downs and reversals are included in other materials expenses.

Inventories held by the Group are not subject to any retention of title clauses.

Note 11. Investments

	31 December 2012	31 December 2011
Deposits OJSC “Gazprombank”	4,495	-
Promissory notes CJSC “Alfa-Bank”	338	
Total	**4,833**	**-**

The Group’s exposure to credit, currency and interest risks related to investments is disclosed in Note 30.

Note 12. Trade and other receivables

	31 December 2012	31 December 2011
Trade receivables	23,047	21,380
Other receivables	3,132	4,021
Financial assets	**26,179**	**25,401**
Advances to suppliers and prepaid expenses	2,220	931
VAT recoverable	206	235
Taxes other than income tax prepaid	150	115
Other receivables	2,387	470
Total	**31,142**	**27,152**
Current assets	29,610	27,147
Non-current assets	1,532	5
Total	**31,142**	**27,152**

Trade receivables balances are recorded net of provision for impairment in amount of RR 3,508 million and RR 2,516 million at 31 December 2012 and at 31 December 2011, respectively.

Other receivables balances are recorded net of provision for impairment in amount of RR 109 million and RR 211 million at 31 December 2012 and at 31 December 2011, respectively.

The Group’s exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 30.

Note 13. Other assets

	31 December 2012	31 December 2011
Other non-current assets		
Constructed assets financed by the government of Moscow city	523	-
Intangible assets	396	503
Investments	223	-
Available-for-sale financial assets	9	9
Other assets	2,570	1,722
Total other non-current assets	**3,721**	**2,234**
Other current assets		
Constructed assets financed by the government of Moscow city	**-**	523
Other assets	393	751
Total other current assets	**393**	**1,274**

Other assets include current and non-current input VAT from advances for acquisition of property, plant and equipment in total amount of RR 2,575 million and RR 1,477 million at 31 December 2012 and at 31 December 2011, respectively.

Investments as part of other non-current assets include promissory notes of CJSC "Alfa-Bank" in total amount of RR 223 million with a maturity of first half of 2014.

Since June 2005 the Group was engaged in the construction of the power plant further to be jointly used by the Group and the government of Moscow city. Construction of the distribution unit is jointly financed and shall be distributed between the parties involved upon completion. Included in other payables and accrued expenses is a liability to the government of Moscow city amounting to RR 523 million.

Note 14. Cash and cash equivalents

	31 December 2012	31 December 2011
Call deposits	10,521	23,526
Bank balances	2,111	2,046
Total	**12,632**	**25,572**

Call deposits are classified as cash equivalents when their original maturity is three month or less.

Information in respect of call deposits and applicable interest rates is as follows:

	31 December 2012		31 December 2011	
Bank	**%**	**Balances**	**%**	**Balances**
OJSC "Sberbank Rossii"	7.30	4,672	-	-
OJSC "Alfa Bank"	7.60	4,242	-	-
OJSC "Gazprombank"	4.40	1,607	7.78	9,321
OJSC "Bank VTB"	-	-	7.78	14,205
Total		**10,521**		**23,526**

Note 15. Equity

(a) Share capital and share premium

At 31 December 2012 the authorised share capital comprised 39,749,359,700 ordinary shares (at 31 December 2011: 39,749,359,700) of RR 1.00 par value each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Group (see below), all rights are suspended until those shares are reissued.

Share premium amounted to RR 49,213 million represents excess of the cash proceeds from the issue of share capital over its par value net of the transaction costs amounted to RR 7 million.

(b) Treasury stock

The treasury stock at 31 December 2012 and at 31 December 2011 amounted to RR 871 million.

No decisions regarding further operations with treasury stock were made by the Company's management.

(c) Reserves

At 31 December 2012 reserves composed of the revaluation of available-for-sale financial assets in amount of RR 3 million (at 31 December 2011: RR 3 million) and the revaluation reserve relates to the revaluation of property, plant and equipment in amount of RR 83,778 million (for the result of financial year 2011: RR 83,834 million).

(d) Dividends

In 19 June 2012 the general shareholders meeting made the decision to pay dividends for the result of financial year 2011. The amount of declared dividends on the issuer shares was RR 0.03 per share, total amount of dividends is RR 1,188 million (for the result of financial year 2010: RR 0.02 per share, total amount of dividends is RR 792 million).

The decision related to dividends distribution for fiscal year 2012 is scheduled at the general shareholders' meeting in May-June 2013.

Note 16. Borrowings

The note provides information about the contractual terms of the Group's interest-bearing borrowings, which are measured at amortised cost.

	31 December 2012	31 December 2011
Non-current borrowings		
Unsecured bank loans	9,916	5,223
Unsecured bond issues	5,000	5,000
Other loans	1,700	-
Total	**16,616**	**10,223**
Current borrowings and current portion of non-current borrowings		
Current portion of unsecured bank loans	1,427	571
Current portion of unsecured bond issues	471	4,783
Total	**1,898**	**5,354**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding liabilities are as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2012		31 December 2011	
				Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans				**12,379**	**11,343**	**6,087**	**5,794**
BNP Paribas	EURO	EURIBOR 6M+2%	2022	6,425	5,782	2,465	2,329
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1.95%	2024	5,389	5,001	2,691	2,490
Credit Agricole CIB Deutschland	EURO	7.2%	2014	504	500	868	912
Credit Agricole CIB Deutschland	EURO	EURIBOR 6M+1%	2026	61	60	63	63
Unsecured bond issues				**5,471**	**5,471**	**9,783**	**9,783**
Unsecured bond issue № 3	Russian Roubles	8.7%	2014	5,000	5,000	5,000	5,000
Unsecured bond issue № 2	Russian Roubles	1.00%	2013	471	471	4,783	4,783
Other loans				**1,700**	**1,700**	-	-
LLC “Gazprom energoholding”	Russian Roubles	7.25%	2022	1,048	1,048	-	-
OJSC “OGK-2”	Russian Roubles	7.25%	2021	652	652	-	-
Total				**19,550**	**18,514**	**15,870**	**15,577**

Note 17. Employee benefits

The Group sponsors a post-employment and other long-term benefit program that covers the majority of the Group’s employees. The plan principally consists of a defined contribution plan enabling employees to contribute a portion of their salary to the plan and equivalent portion of contribution from the Group. The plan is administrated by non-state pension fund.

To be entitled for participation in this defined contribution pension plan an employee should meet certain age and past service requirements. Maximum possible amount of employer’s contribution is limited and depends on employee’s position in the Group.

In addition to defined contribution pension plan the Group maintains several plans of a defined benefit nature which are provided in accordance with collective bargaining agreement and other documents. The main benefits provided under this agreement are lump sum upon retirement and material assistance.

A new collective bargaining agreement came into force from 1 January 2012. There were no significant changes in benefits provided via the agreement compared to the version effective in the prior year.

Compensations for redundancies paid by the Group for the year ended 31 December 2012 and for the year ended 31 December 2011 amounted to RR 36 million and 108 million, respectively, were recognised in profit and loss in personnel expenses.

	31 December 2012	31 December 2011
Present value of unfunded obligations	310	278
Recognised liability for defined benefit obligations	310	278
Unrecognised actuarial (losses)/gains	(5)	6
Unrecognised past service cost	(63)	(63)
Net liability recognised in the consolidated statement of financial position	**242**	**221**

(a) Movement in the present value of the defined benefit obligations

	2012	2011
Defined benefit obligations at 1 January	278	300
Past service cost	25	23
Interest on employee benefit obligations	23	21
Actuarial losses/(gains)	13	(23)
Current service cost	8	8
Benefits paid	(32)	(41)
Effect of curtailment and settlement	(5)	(10)
Defined benefit obligations at 31 December	**310**	**278**

(b) Expenses recognised in profit or loss

	Year ended 31 December 2012	Year ended 31 December 2011
Termination benefits	36	108
Interest on employee benefit obligations	23	21
Amortisation of past service cost	20	18
Current service cost	8	8
Net actuarial losses recognized in period	4	1
Past service cost	3	23
Effect of curtailment and settlement	(3)	(6)
Total	**91**	**173**

(c) Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) are as follows:

(i) Financial assumptions

	31 December 2012	31 December 2011
Discount rate	7.00%	8.50%
Inflation rate	5.50%	6.00%
Future salary increases	7.50%	7.50%
Future pension increases	5.50%	6.00%

(ii) Demographic assumptions

Withdrawal rates assumption is as follows*:* expected staff turnover rates vary depending on employee past service in range from 25% p.a. for employees with 1 year of past service to around 7% p.a. for those who have 20 or more years of service. Compared to previous period the changes in the assumption are insignificant.

Retirement ages assumption is as follows*:* average retirement ages are 62 years for men and 58 years for women. Very similar retirement ages were used in previous period.

Mortality table: Russian urban population mortality table 1986-87.

(d) Historical information

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Present value of the defined benefit obligation	310	278	300	245	482
Deficit in the plan	**310**	**278**	**300**	**245**	**482**
Experience adjustments arising on plan liabilities	1	(10)	18	(3)	42

In 2013 the Group expects to contribute RR 43 million to its defined benefit plans.

Note 18. Trade and other payables

	31 December 2012	31 December 2011
Trade payables	6,722	9,165
Other payables	3,313	4,717
Financial liabilities	**10,035**	**13,882**
Advances received	2,506	3,235
Other payable	3,304	2,566
Total	**15,845**	**19,683**
Current liabilities	14,720	18,936
Non-current liabilities	1,125	747
Total	**15,845**	**19,683**

Other payables as part of financial liabilities include accounts payable for acquisition of property, plant and equipment amounting to RR 2,571 million at 31 December 2012 (at 31 December 2011: RR 2,468 million).

Other payables as part of non-financial liabilities include VAT on advances received amounting to RR 2,168 million at 31 December 2012 (at 31 December 2011: RR 1,487 million).

The Group’s exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 30.

Note 19. Other taxes payable

	31 December 2012	31 December 2011
VAT payable	801	279
Social contributions payable	206	129
Property tax payable	103	-
Other taxes payable	10	25
Total	**1,120**	**433**

Note 20. Provisions

	2012	2011
Balance at 1 January	93	71
Provisions made during the year	120	117
Provisions used during the year	(138)	(95)
Provisions recovered during the year	(8)	-
Balance at 31 December	**67**	**93**

The legal provision balance was made by the Company in amount of RR 67 million and RR 93 million at 31 December 2012 and at 31 December 2011, respectively. At 31 December 2012 the majority of this balance in amount of RR 28 million and RR 30 million was made in respect of the claims from OJSC “MOEK” and LLC “Prestigniy proect” (at 31 December 2011: RR 74 million and RR 0 million).

Note 21. Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity	85,816	88,715
Heat	67,694	69,544
Other revenue	3,629	2,860
Total	**157,139**	**161,119**

Other revenue relates to rent, water usage, repair and maintenance services provided by the Group.

Approximately 5% and 6% of sales of electricity for the year ended 31 December 2012 and for the year ended 31 December 2011, respectively, relates to resale of purchased electricity on wholesale market NOREM.

Note 22. Cost of materials

	Year ended 31 December 2012	Year ended 31 December 2011
Fuel expenses	83,339	78,861
Purchased heat and electricity	10,001	10,843
Water usage expenses	1,199	1,166
Other materials expenses	1,003	1,110
Total	**95,542**	**91,980**

Electricity is purchased mainly on wholesale electricity market.

Note 23. Other external supplies

	Year ended 31 December 2012	Year ended 31 December 2011
Electricity market administration fees	1,234	1,154
Desalted water supply	972	383
Security services	483	441
Cleaning services	300	300
Transport services	260	192
Cetification and testing	219	171
Communication services	106	90
Fire prevention services	69	80
Other services	293	304
Total	**3,936**	**3,115**

Electricity market administration fees include payments to OJSC “Administrator torgovoi sistemy” and CJSC “Centr finansovyh raschetov” for arrangement of settlements between parties on electricity market and payments to JSC “SO UES” for regulation of generating assets operation of the Group.

Note 24. Personnel expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries	6,714	6,502
Payroll tax	1,497	1,298
Personnel training expenses	107	60
Catering	101	99
Voluntary medical insurance expenses	101	98
Termination benefits	36	108
Amortisation of past service cost	20	18
Current service cost	8	8
Net actuarial losses recognised in period	4	1
Past service cost	3	23
Total	**8,591**	**8,215**

The Group average headcount totaled 8,150 and 8,134 at 31 December 2012 and at 31 December 2011, respectively.

Note 25. Other operating expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Trade and other receivables impairment loss and derecognition	1,153	1,616
Rent payments	826	680
Legal, consulting and data processing services	762	802
Loss on disposal of property, plant and equipment	253	74
Software expenses	210	168
Environmental payments	69	85
Safety arrangement and precautions	69	64
Insurance expenses	64	244
Cession agreement	50	83
Bank services	21	41
Impairment loss on assets classified as held for sale	11	15
Loss on change in fair value of investment property	-	61
Other miscellaneous	105	198
Total	**3,593**	**4,131**

Note 26. Other operating income

	Year ended 31 December 2012	Year ended 31 December 2011
Fines and penalties business contracts	682	704
Subsidies on the difference in tariffs for sales to the urban population	644	619
Gain from disposal of assets classified as held for sale	501	537
Income from sales of goods and materials	38	25
Effect of curtailment and settlement	3	6
Other miscellaneous	59	32
Total	**1,927**	**1,923**

Reimbursement from government of Moscow city represents cash paid to the Group to compensate the difference between tariffs set to the urban population and the tariffs of the Group.

Note 27. Financial income and expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Financial income		
Interest income on bank deposits	1,300	1,190
Foreign exchange gain	182	6
Other interest income	126	81
Total	**1,608**	**1,277**
Financial expenses		
Interest expenses on borrowings	(926)	(1,675)
Lease expenses	(26)	(19)
Interest on employee benefit obligations	(23)	(21)
Foreign exchange loss	-	(158)
Other interest expenses	(79)	-
Total	**(1,054)**	**(1,873)**
Less capitalised interest expenses on borrowings related to qualifying assets (Note 7)	926	1,675
Net financial expenses recognised in profit or loss	**(128)**	**(198)**

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	1,426	1,271
Interest expenses	(105)	(19)
Net interest	**1,321**	**1,252**

Net interest result by categories of assets and liabilities

	Year ended 31 December 2012	Year ended 31 December 2011
Cash and cash equivalents	1,310	1,271
Investments	116	-
Liabilities carried at amortised cost	(105)	(19)
Total	**1,321**	**1,252**

Note 28. Income tax

(a) Income tax

The applicable tax rate of the Group is the income tax rate of 20% (for the year ended 31 December 2011: 20%).

	Year ended 31 December 2012	Year ended 31 December 2011
Current tax expense		
Current period	(3,297)	(1,733)
Over provided in prior periods	1,455	1,854
Deferred tax expense		
Origination and reversal of temporary differences	144	(2,195)
Income tax expense	**(1,698)**	**(2,074)**

Reconciliation of effective tax rate is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	8,014	11,966
Income tax at applicable tax rate	(1,603)	(2,393)
Non-deductible / non-taxable items	(95)	319
Income tax expense	**(1,698)**	**(2,074)**

(b) Tax effects of components of other comprehensive income

	Year ended 31 December 2012			Year ended 31 December 2011		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax charge**	**After tax**
Impairment loss on property, plant and equipment	(70)	14	(56)	(1,336)	267	(1,069)
Impairment loss of available-for-sale financial assets	-	-	-	(6)	1	(5)
Total	**(70)**	**14**	**(56)**	**(1,342)**	**268**	**(1,074)**

(d) Deferred income tax

Recognised deferred tax assets and liabilities are as follows:

	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	-	-	(25,491)	(25,448)	(25,491)	(25,448)
Assets classified as held for sale	-	-	(268)	(301)	(268)	(301)
Investment property	-	-	(50)	(45)	(50)	(45)
Trade and other receivables	-	-	(223)	(584)	(223)	(584)
Trade and other payables	55	154	-	-	55	154
Employee benefits	49	45	-	-	49	45
Provisions	13	18	-	-	13	18
Borrowings	-	-	(207)	(59)	(207)	(59)
Other current and non-current assets	-	-	(98)	(181)	(98)	(181)
Other	16	39	-	-	16	39
Total	**133**	**256**	**(26,337)**	**(26,618)**	**(26,204)**	**(26,362)**

Movements in deferred income tax during the year ended 31 December 2011 and the year ended 31 December 2012 are as follows:

	31 December 2010	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 December 2011**
Property, plant and equipment	(24,297)	(1,724)	267	306	(25,448)
Assets classified as held for sale	(117)	124	-	(308)	(301)
Investment property	(54)	7	-	2	(45)
Trade and other receivables	32	(616)	-	-	(584)
Trade and other payables	128	26	-	-	154
Employee benefits	40	5	-	-	45
Provisions	14	4	-	-	18
Borrowings	(31)	(28)	-	-	(59)
Other current and non-current assets	(186)	4	1	-	(181)
Other	36	3	-	-	39
Total	**(24,435)**	**(2,195)**	**268**	**-**	**(26,362)**

	31 December 2011	**Recognised in income**	**Recognised in equity**	**Reclassification**	**31 December 2012**
Property, plant and equipment	(25,448)	(76)	14	19	(25,491)
Assets classified as held for sale	(301)	52	-	(19)	(268)
Investment property	(45)	(5)	-	-	(50)
Trade and other receivables	(584)	361	-	-	(223)
Trade and other payables	154	(99)	-	-	55
Employee benefits	45	4	-	-	49
Provisions	18	(5)	-	-	13
Borrowings	(59)	(148)	-	-	(207)
Other current and non-current assets	(181)	83	-	-	(98)
Other	39	(23)	-	-	16
Total	**(26,362)**	**144**	**14**	**-**	**(26,204)**

Note 29. Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, calculated as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Issued shares	39,749,360	39,749,360
Effect of own shares held	(140,229)	(140,229)
Weighted average number of ordinary shares (thousands)	**39,609,131**	**39,609,131**

The following is a reconciliation of the profit attributable to ordinary shareholders:

	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of ordinary shares issued (thousands)	39,609,131	39,609,131
Profit for the year	6,316	9,892
Profit per ordinary share (basic and diluted) (in Russian Roubles)	**0.16**	**0.25**

There are no dilutive potential ordinary shares as of 31 December 2012 and 31 December 2011.

Note 30. Financial instruments

(a) Credit risk

(i) 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
Loans and receivables	**26,179**	**25,401**
Trade and other receivables (Note 12)	26,179	25,401
Held-to-maturity investments	**5,056**	**-**
Investments (Note 11)	4,833	-
Other investments (Note 13)	223	-
Available-for-sale financial assets (Note 13)	**9**	**9**
Cash and cash equivalents (Note 14)	**12,632**	**25,572**
Total financial assets	**43,876**	**50,982**

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

	Carrying amount	
	31 December 2012	31 December 2011
Heat	13,172	14,760
Electricity	9,224	6,181
Other	3,783	4,460
Total	**26,179**	**25,401**

Debtors within two main classes of accounts receivable – electricity and heat – are quite homogenous regarding their credit quality and concentration of credit risk.

The account receivables of the Group are primarily comprised of a few, large, reputed customers who purchase electricity and heat. Historical data, including payment history during the recent credit crisis, would suggest that the risk of default from such customers is very low.

The most important customers of the Group, OJSC “MOEK” and CJSC “CFR”, accounts for RR 7,733 million and RR 2,909 million, respectively, for the trade receivables carrying amount at 31 December 2012 (at 31 December 2011: RR 10,684 million and RR 2,317 million, respectively).

(ii) Impairment losses

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

	31 December 2012		31 December 2011	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	11,573	-	16,185	-
Past due 0-30 days	8,764	-	6,399	-
Past due 31-120 days	3,417	48	776	-
Past due 121-365 days	2,047	720	1,850	-
More than one year	3,995	2,849	2,918	2,727
Total	**29,796**	**3,617**	**28,128**	**2,727**

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

	2012	2011
Balance at 1 January	**2,727**	**1,434**
Impairment loss recognised during the period	1,058	1,295
Allowance used during the period	(168)	(2)
Balance at 31 December	**3,617**	**2,727**

The impairment allowance at 31 December 2012 of RR 3,617 million (at 31 December 2011: RR 2,727 million) relates to the customers that were declared bankrupt or had significant liquidity problems during the reporting period.

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due by up to 120 days; 79.72 percent of the balance (at 31 December 2011: 89.63 percent), which includes the amount owed by the most significant customer of the Group (see above), relates to customers that have a good track record with the Group.

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 is considered irrecoverable and written off against the financial asset directly.

(iii) Credit risk related to the Group’s cash in banks and call deposits

All bank balances and call deposits are neither past due nor impaired. Analysis by credit quality of bank balances and call deposits are as follows:

Name of the bank	Rating agency	Rating	31 December 2012	Rating	31 December 2011
OJSC “Alfa-Bank”	Fitch Ratings	AA+(rus)	5,205	AA(rus)	1,663
OJSC “Sberbank Russia”	Moody's Interfax	Aaa.ru	4,675	Aaa.ru	1
OJSC “Gazprombank”	Standard & Poor's	ruAAA	1,607	ruAA+	9,546
OJSC “AB “Russia”	Moody's Interfax	A3.ru	1,143	A3.ru	154
OJSC Bank “VTB”	Fitch Ratings	AAA(rus)	-	AAA(rus)	14,205
Other	-	-	2	-	3
Total			**12,632**		**25,572**

The Company pursues the policy of cooperation with a number of the top Russian banks, which is approved by the Board of Directors.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2012:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	11,343	14,377	886	869	1,530	1,337	1,312	1,285	7,158
Unsecured bond issues	5,471	6,342	691	217	5,434	-	-	-	-
Other loans	1,700	2,866	31	61	123	123	123	123	2,282
Trade and other payables	10,035	10,035	9,853	-	182	-	-	-	-
Total	**28,549**	**33,620**	**11,461**	**1,147**	**7,269**	**1,460**	**1,435**	**1,408**	**9,440**

The following are the contractual maturities of financial liabilities, including estimated interest payments at 31 December 2011:

	Carrying amount	Contractual cash flows	0-6 moths	6-12 moths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bank loans	5,794	7,611	372	366	1,047	828	635	615	3,748
Unsecured bond issues	9,783	11,498	5,220	256	511	5,511	-	-	-
Trade and other payables	13,882	13,882	13,779	-	103	-	-	-	-
Total	**29,459**	**32,991**	**19,371**	**622**	**1,661**	**6,339**	**635**	**615**	**3,748**

All of the Group's financial liabilities are carried at amortised cost.

(c) *Currency risk*

(i) Exposure to currency risk

	EURO-denominated	
	31 December 2012	**31 December 2011**
Investments	4,475	-
Cash and cash equivalents	26	-
Unsecured bank loans	(11,343)	(5,794)
Gross balance sheet exposure	**(6,842)**	**(5,794)**
Estimated forecasted interest income	120	-
Estimated forecasted interest expenses	(238)	(119)
Gross exposure	**(118)**	**(119)**
Net exposure	**(6,960)**	**(5,913)**

The following significant exchange rates applied during the period:

	Average rate		**Reporting date spot rate**	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
EURO 1	39,9524	40,8848	40,2286	41,6714

(ii) Sensitivity analysis

A 2% strengthening of the RR against EUR at 31 December 2012 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2011.

	31 December 2012	**31 December 2011**
EURO	159	135

A 2% weakening of the RR against the EUR at 31 December 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The actual decrease in the average exchange rates for the period ended 31 December 2012 was approximately 2% for the EURO (at 31 December 2011: 1%), although the difference between the two actual extremes in the reported period was approximately 9% (at 31 December 2011: 11%).

(d) Interest rate risk

(i) *Profile*

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

	Carrying amount	
	31 December 2012	**31 December 2011**
Fixed rate instruments		
Financial assets (Note 11, 12, 13, 14)	43,876	50,982
Financial liabilities (Note 16,18)	(17,706)	(24,577)
Total	**26,170**	**26,405**
Variable rate instruments		
Financial liabilities (Note 16)	(10,843)	(4,882)
Total	**(10,843)**	**(4,882)**

(ii) Fair value sensitivity analysis for fixed rate instruments

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

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2012 and 31 December 2011.

	31 December 2012		31 December 2011	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Variable rate instruments	(98.9)	98.9	(35.0)	35.0
Cash flow sensitivity (net)	**(98.9)**	**98.9**	**(35.0)**	**35.0**

(e) Fair values

The management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts:

	31 December 2012		31 December 2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Trade and other receivables (Note 12)	26,179	26,179	25,401	25,401
Cash and cash equivalents (Note 14)	12,632	12,632	25,572	25,572
Investments (Note 11)	4,833	4,833	-	-
Other investments (Note 13)	223	223	-	-
Available-for-sale financial assets (Note 13)	9	9	9	9
Unsecured bank loans (Note 16)	(11,343)	(11,343)	(5,794)	(5,794)
Trade and other payables (Note 18)	(10,035)	(10,035)	(13,882)	(13,882)
Unsecured bond issues (Note 16)	(5,471)	(5,496)	(9,783)	(9,946)
Other loans (Note 16)	(1,700)	(1,700)	-	-

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

Note 31. Leases

(a) Operating leases

Operating leases refer mainly to long-term rental agreements for land rent where generation facilities of the Group are located. The leases typically run for periods from 5 to 45 years with an option to renew the lease. During for the year ended 31 December 2012 and for the year ended 31 December 2011 operating lease expenses in the amounts of RR 826 million and RR 680 million respectively, were recognised in the consolidated statement of comprehensive income.

Non-cancellable operating lease rentals are payable as follows:

	31 December 2012	31 December 2011
Less than one year	481	408
Between one and five years	1,850	1,626
More than five years	13,573	8,877
Total	**15,904**	**10,911**

(b) Finance leases

Finance lease rentals are payable as follows (see Note 7):

	31 December 2012			31 December 2011		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	77	38	39	11	2	9
Between one and five years	30	6	24	6	1	5
More than five years	-	-	-	-	-	-
Total	**107**	**44**	**63**	**17**	**3**	**14**

Note 32. Commitments and contingencies

(a) Capital commitments

At 31 December 2012 the Group was involved in a number of contracts for construction and purchase of property, plant and equipment for RR 50,034 million (at 31 December 2011: RR 23,525 million). The amount includes Capacity Supply Contracts capital commitments for the amount RR 32,789 million (at 31 December 2011: RR 16,694 million).

(b) Taxation environment

The taxation systems in the Russian Federation are relatively new and are characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among different tax authorities within the same jurisdictions and among taxing authorities in different jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. In the Russian Federation 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 position in their interpretation and enforcement of tax legislation.

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) Environmental liabilities

Environmental regulations are currently in the process of development in the Russian Federation. Group evaluates on a regular basis its obligations due to new and amended legislation. As liabilities in respect of environmental obligations can be measured, they are immediately recognised in profit or loss. Currently the likelihood and amount of potential environmental liabilities cannot be estimated reliably but could be material. However, management believes that under existing legislation there are no significant unrecorded liabilities or contingencies, which could have a materially adverse

effect on the operating results or financial position of the Group.

(d) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not generally available. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption and third party liability. Until the Group obtains adequate insurance coverage, there is a risk that the loss from business interruption and third party 0liability could have a material adverse effect on the Group's operations and financial position.

(e) Guarantees

The Group has issued direct guarantees to third parties which require the Group to make contingent payments based on the occurrence of certain events consisting primarily of guarantees for mortgages of Group employees amounting to RR 94 million at 31 December 2012 (at 31 December 2011: RR 150 million).

(f) Legal proceedings

The Group is a party in a number of legal proceedings arising in the ordinary course of business. This in particular includes legal action and proceeding against the Company in connection with the invalidation of the long-term lease contract with MP "Khimkinskaya teploset" for a heating property located in Khimki, Moscow Region.

Note 33. Operating segments

The chief operating decision-maker has been identified as the Board of Directors and Chief Executive Officer. The decision-maker reviews the Group's internal reporting in order to assess performance and allocate resources. The Group has determined the operating segments based on these reports to be individual power generating units.

The decision-maker assesses the operating performance of these individual power generating units based on its revenue and directly attributable costs. Interest income and expenditure are treated as central costs of the Group. Other information provided to the decision-maker is measured in a manner consistent with that in the financial statements.

The operating segments are aggregated into two primary reporting segments; electricity and heat. Despite of the fact that there are modernised and unmodernised power generating units amongst operating segments which show significantly different gross margins, this aggregation is premised on the identical nature of their products, production process, the class of customers, the methods used to distribute their products and the nature of the regulatory environment. This aggregation results from the similar economic characteristics, over the long run, of these two distinct outputs.

Other services and products sold by the Group mainly include rent services, feed water sales and maintenance services. These are not included within the reportable operating segments. The results of these operations are included in the "all other segments" column.

Taxes balances and available-for-sale financial assets are not considered to be segment assets but rather are managed by the central function. These are part of the reconciliation to total consolidated statement of financial position assets.

(a) Segment information

The segment information for year ended 31 December 2012 and at 31 December 2012 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	**21**	**85,816**	**67,694**	**3,629**	**157,139**
Expenses:					
Fuel and water usage expenses	22	(84,343)	(195)	-	(84,538)
Heat transmission		-	(19,647)	-	(19,647)
Purchased electricity	22	(9,137)	(41)	-	(9,178)
Purchased heat	22	-	(823)	-	(823)
Segment result		**(7,664)**	**46,988**	**3,629**	**42,953**
Segment assets		**221,344**	**31,482**	**14,755**	**267,581**

The segment information for the year ended 31 December 2011 and at 31 December 2011 is as follows:

	Note	Electricity	Heat	All other segments	Total
Revenue from external customers	**21**	**88,715**	**69,544**	**2,860**	**161,119**
Expenses:					
Fuel and water usage expenses	22	(80,027)	-	-	(80,027)
Heat transmission		-	(26,465)	-	(26,465)
Purchased electricity	22	(10,111)	-	-	(10,111)
Purchased heat	22	-	(732)	-	(732)
Segment result		**(1,423)**	**42,347**	**2,860**	**43,784**
Segment assets		**208,984**	**36,827**	**16,483**	**262,294**

The segment assets include impairment loss recognised for property, plant and equipment for the year ended 31 December 2012 in total amount RR 661 million which was allocated to the electricity segment in amount RR 642 million, to the heat segment in amount RR 17 million and RR 2 million to all other segments (at 31 December 2011: RR 1,343 million which was allocated to electricity segment).

A reconciliation of adjusted gross margin to profit before tax is provided as follows:

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Segment result for reportable segments		39,324	40,924
Other segments gross margin		3,629	2,860
Financial income	27	1,608	1,277
Other operating income	26	1,927	1,923
Depreciation of property, plant and equipment	7	(13,716)	(13,041)
Personnel expenses	24	(8,591)	(8,215)
Maintenance and repairs expenses		(5,421)	(4,840)
Other external supplies	23	(3,936)	(3,115)
Financial expenses	27	(128)	(198)
Impairment loss on property, plant and equipment	7	(575)	(7)
Taxes other than income tax		(1,511)	(361)
Other materials expenses	22	(1,003)	(1,110)
Other operating expenses	25	(3,593)	(4,131)
Profit before income tax		**8,014**	**11,966**

(b) Reportable segments' assets

The amounts provided to the decision makers with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Note	31 December 2012	31 December 2011
Segment assets		267,581	262,294
Unallocated:			
Taxes other than income tax prepaid	12	150	115
Income tax receivables		4	3
Available-for-sale financial assets	13	9	9
Total assets per consolidated statement of financial position		**267,744**	**262,421**

(c) Information about major customers

During the year ended 31 December 2012 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2012 amounted to RR 52,343 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2012 amounted to RR 42,744 million. The revenue was obtained from sales of heat relating to the heat segment.

During the year ended 31 December 2011 there were certain external customers, revenues from transactions with whom exceeded 10% of the Group's revenues:

- Revenue from CJSC "ZFR" for the year ended 31 December 2011 amounted to RR 56,242 million. The revenue was obtained from sales of electricity and capacity relating to the electricity segment.
- Revenue from OJSC "MOEK" for the year ended 31 December 2011 amounted to RR 46,290 million. The revenue was obtained from sales of heat relating to the heat segment.

Note 34. Events after the reporting period

On 29 December 2012 the Board of Directors approved to increase the Company's participation in charter capital of its subsidiary LLC "OGK-Investprojekt" up to 90.5%.