OJSC MOESK

Consolidated Financial Statements for the year ended 31 December 2011

Contents

KPMG

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Independent Auditors' Report

To the Board of Directors of OJSC MOESK

We have audited the accompanying consolidated financial statements of OJSC MOESK (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
6 April 2012

	Note	31 December 2011 ’000 RUB	31 December 2010 ’000 RUB
ASSETS			
Non-current assets			
Property, plant and equipment	12	205 734 239	190 225 639
Intangible assets	13	472 638	85 535
Long-term investments	14	560 737	624 800
Other non-current assets	15	14 008 820	13 680 640
Total non-current assets		**220 776 434**	**204 616 614**
Current assets			
Inventories	17	2 100 004	1 674 664
Income tax receivable		460 565	631 841
Trade and other receivables	18	22 101 928	23 973 028
Short-term investments	14	175 000	1 187
Cash and cash equivalents	19	3 944 875	2 931 237
Total current assets		**28 782 372**	**29 211 957**
Total assets		**249 558 806**	**233 828 571**

	Note	31 December 2011 '000 RUB	31 December 2010 '000 RUB
EQUITY AND LIABILITIES			
Equity			
Share capital	20	24 353 546	24 353 546
Additional paid in capital		18 580 888	18 580 888
Retained earnings		79 494 344	62 746 579
Total equity attributable to the shareholders of OJSC MOESK		**122 428 778**	**105 681 013**
Non-controlling interest		484 455	389 661
Total equity		**122 913 233**	**106 070 674**
Non-current liabilities			
Loans and borrowings	22	39 966 562	29 472 416
Employee benefits	23	1 356 652	1 649 275
Deferred tax liabilities	16	7 782 408	6 943 138
Trade and other payables	25	22 470 975	10 893 132
Total non-current liabilities		**71 576 597**	**48 957 961**
Current liabilities			
Loans and borrowings	22	6 509 086	10 631 321
Other taxes payable	26	113 090	763 382
Trade and other payables	25	47 458 435	66 764 149
Provisions	24	988 365	641 084
Total current liabilities		**55 068 976**	**78 799 936**
Total equity and liabilities		**249 558 806**	**233 828 571**

These consolidated financial statements were approved by management on 6 April 2012 and were signed on its behalf by:

Deputy Director General
on Economics and Finance

O. L. Bulanova

Head of Department
on Economics and Finance

V.V. Bragova

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	Note	2011 '000 RUB	2010 '000 RUB
Revenue	6	129 365 994	111 731 578
Operating expenses	7	(105 633 604)	(89 358 961)
Other operating income	9	1 377 347	1 454 203
Results from operating activities		**25 109 737**	**23 826 820**
Finance income	10	124 081	253 957
Finance costs	10	(1 789 226)	(2 490 394)
Profit before income tax		**23 444 592**	**21 590 383**
Income tax expense	11	(5 402 032)	(4 426 923)
Profit for the year		**18 042 560**	**17 163 460**
Total comprehensive income for the year		**18 042 560**	**17 163 460**
Total profit and comprehensive income attributable to:			
Shareholders of OJSC MOESK		17 947 766	17 170 787
Non-controlling interest		94 794	(7 327)
Basic and diluted earnings per ordinary share (in Russian Roubles)	21	**RUB 0.3685**	**RUB 0.3525**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

’000 RUB	Attributable to shareholders of the Group					
	Share capital	Additional paid in capital	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010	**24 353 546**	**18 580 888**	**46 025 792**	**88 960 226**	**396 988**	**89 357 214**
Profit for the year	-	-	17 170 787	17 170 787	(7 327)	17 163 460
Total comprehensive income for the year	-	-	17 170 787	17 170 787	(7 327)	17 163 460
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to shareholders	-	-	(450 000)	(450 000)	-	(450 000)
Total contributions by and distributions to owners	-	-	(450 000)	(450 000)	-	(450 000)
Balance at 31 December 2010	**24 353 546**	**18 580 888**	**62 746 579**	**105 681 013**	**389 661**	**106 070 674**
Balance at 1 January 2011	**24 353 546**	**18 580 888**	**62 746 579**	**105 681 013**	**389 661**	**106 070 674**
Profit for the year	-	-	17 947 766	17 947 766	94 794	18 042 560
Total comprehensive income for the year	-	-	17 947 766	17 947 766	94 794	18 042 560
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to shareholders	-	-	(1 200 001)	(1 200 001)	-	(1 200 001)
Total contributions by and distributions to owners	-	-	(1 200 001)	(1 200 001)	-	(1 200 001)
Balance at 31 December 2011	**24 353 546**	**18 580 888**	**79 494 344**	**122 428 778**	**484 455**	**122 913 233**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	2011 '000 RUB	2010 '000 RUB
Cash flows from operating activities		
Profit before income tax	**23 444 592**	**21 590 383**
Adjustments for:		
Depreciation and amortisation	16 538 863	13 339 559
(Gain)/loss on disposal of property, plant and equipment	(122 266)	4 153
Impairment losses on property, plant and equipment	4 780	34 574
Provisions for legal claims	347 281	533 437
Finance income	(124 081)	(253 957)
Finance costs	1 789 226	2 490 394
Allowance for impairment of accounts receivable	3 637 112	268 967
Allowance for impairment of non-current assets	-	4 993
Gain on disposal of inventory	(73 643)	-
Other non-cash items	(60 453)	(548 294)
Cash from operating activities before changes in working capital	**45 381 411**	**37 464 209**
Change in inventories	(356 795)	535 023
Change in trade and other receivables, non-current advances given for connection services	(1 807 859)	(2 027 906)
Change in retirement benefit obligations and related assets	(350 253)	791 529
Change in trade and other payables	(8 400 100)	(1 773 222)
Change in taxes payable, other than income tax	(650 291)	476 026
Cash flows from operations before income taxes	**33 816 113**	**35 465 658**
Income taxes paid	(4 391 486)	(5 015 516)
Net cash from operating activities	**29 424 627**	**30 450 142**
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	5 608	1 417
Proceeds from disposal of short-term investments	1 187	452 407
Acquisition of property plant and equipment	(29 322 009)	(18 925 850)
Acquisition of intangible assets	(447 640)	(49 553)
Acquisition of short-term investments	-	(578 594)
Interest received	37 086	60 587
Bank deposits	(50 000)	-
Net cash used in investing activities	**(29 775 768)**	**(19 039 586)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

	2011 '000 RUB	2010 '000 RUB
Cash flows from financing activities		
Proceeds from borrowings	42 596 456	33 839 085
Repayment of borrowings	(33 091 329)	(37 561 065)
Payment of finance lease liabilities	(4 025 077)	(5 818 938)
Dividends paid	(1 200 001)	(450 000)
Interest paid	(2 915 270)	(3 590 286)
Net cash from/(used in) financing activities	**1 364 779**	**(13 581 204)**
Net increase/(decrease) in cash and cash equivalents	**1 013 638**	**(2 170 648)**
Cash and cash equivalents at beginning of year	2 931 237	5 094 383
Effect of exchange rate fluctuations on cash and cash equivalents	-	7 502
Cash and cash equivalents at end of year (Note 19)	**3 944 875**	**2 931 237**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 55.

1 Background

(a) Organisation and operations

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

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

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

As at 31 December 2011 the Russian Federation owned 53.7% of OJSC MRSK Holding, which in turn owned 50.9% of OJSC MOESK.

On 16 June 2011 OJSC MRSK Holding and OJSC Gazprombank signed the agreement for transfer of 50.9% shares of OJSC MOESK to OJSC Gazprombank for the purpose of trust management for the period of 3.5 years. The agreement is subject to further approval of the Federal Antimonopoly Service.

The Company's registered office is at 3/2, 2nd Paveletsky pr-d, Moscow, 115114, Russian Federation. The actual address is 3/2, 2nd Paveletskiy proezd, Moscow, 115114, Russian Federation.

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

(b) Russian business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of judgments, estimates and assumptions

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

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

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

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

(e) Changes in accounting policies

There were no significant changes in accounting policies for 2011.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2 (e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

(ii) Accounting for acquisitions of non-controlling interests

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

(iii) Subsidiaries

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

(iv) Acquisitions from entities under common control

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

(v) Loss of control

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

(vi) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

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

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

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

The Group has the following non-derivative financial assets: held-to-maturity financial investments, loans and receivables, available-for-sale financial assets and cash and cash equivalents.

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(d) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(e) Intangible assets

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

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are 2 to 5 years.

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

(f) Leased assets

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

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

(g) Inventories

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

(h) Impairment

(i) Non-derivative financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

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

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(ii) Defined benefit post-employment plans

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

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

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

(iii) Other non-current employee benefits

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

(iv) Short-term benefits

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

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

(j) Provisions

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

(k) Revenue

(i) Electricity transmission

Revenue from electricity transmission is recognised in the statement of comprehensive income when the customer's acceptance of the volume of electricity transmitted is received. The tariffs for energy transmission are approved by Federal Tariff Agency and Regional Energy Commission of Moscow and the Energy Committee of Moscow Region.

(ii) Connection services

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

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

(iii) Other services

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

(l) Other expenses

(i) Lease payments

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

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

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

Determining whether an arrangement contains a lease

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

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

(ii) Social expenditure

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

(m) Finance income and costs

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

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

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

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

(n) Income tax expense

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

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

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

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

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

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

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

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

(o) Earnings per share

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

(p) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see Note 5).

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

(q) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

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

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

- IFRS 9 *Financial Instruments will be eff*ective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet determined the potential effect of the amendment.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet determined the potential effect of the amendment.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

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

(a) Equity and debt securities

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

(b) Trade and other receivables

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

(c) Non-derivative financial liabilities

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

5 Operating segments

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

Management has determined the following reportable segments:

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

Other activities mainly represent rental income, installation services, repair and technical maintenance of electrical equipment, which have been included in the segment "other". None of these items meets any of the quantitative thresholds for determining reportable segments in 2011 or 2010.

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

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

Moscow	11 748 548	10 121 210	224 133	22 093 891
Moscow Region	(1 660 514)	5 017 865	263 082	3 620 433

Other material items are as follows:

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

Comparative segment revenue and profit before income tax for the year ended 31 December 2010 are as follows:

'000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Total**
Revenues				
External revenues	91 238 959	18 944 958	525 298	110 709 215
Moscow	49 075 787	12 285 208	439 225	61 800 220
Moscow Region	42 163 172	6 659 750	86 073	48 908 995
Inter-segment revenue	-	-	1 073 657	1 073 657
Moscow	-	-	891 313	891 313
Moscow Region	-	-	182 344	182 344
Depreciation and amortisation	12 163 867	30	54 271	12 218 168
Moscow	6 981 954	-	42 683	7 024 637
Moscow Region	5 181 913	30	11 588	5 193 531
Reportable segment operating results	10 751 435	14 478 196	182 105	25 411 736
Moscow	9 443 474	8 528 508	160 852	18 132 834
Moscow Region	1 307 961	5 949 688	21 253	7 278 902

Other material items are as follows:

'000 RUB	**Reportable segment totals**	**Adjustments**	**Consolidated totals**
Depreciation and amortisation	12 218 168	1 121 391	13 339 559
Capital expenditure	19 932 020	2 147 047	22 079 067
Impairment losses on property, plant and equipment	-	34 574	34 574
Income tax expense	(5 778 374)	1 351 451	(4 426 923)

Reconciliation of reportable segment profit:

’000 RUB	**2011**	**2010**
Reportable segments profit	25 227 109	25 229 631
Other profit or loss	487 215	182 105
Unallocated	(3 547 161)	(3 919 436)
Total profit before income tax per Russian Accounting Standards	**22 167 163**	**21 492 300**
Borrowing costs capitalized	2 165 153	3 037 246
Expenses associated with leased property, plant and equipment	2 144 707	2 994 049
Gain on disposal of property, plant and equipment	139 743	23 319
Depreciation and amortisation	(1 284 358)	(1 121 391)
Provision for legal claims	133 180	(533 437)
Provision for unused vacations and bonuses	772 764	(446 401)
Allowance for impairment of account receivable and advances for capital expenditure	(206 581)	(74 574)
Effect of loan discounting	-	(441 999)
Impairment loss on property, plant and equipment	(4 780)	(34 574)
Accrued expenses for connection services	(2 783 910)	(2 837 980)
Accrued employee benefits plan liabilities	292 622	(359 902)
Other items	(91 111)	(106 273)
Consolidated profit before income tax per IFRS	**23 444 592**	**21 590 383**

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

Segment assets are presented in the table below:

’000 RUB	**Electricity transmission**	**Connection services**	**Other**	**Unallocated**	**Total**
31 December 2011					
Total assets	**220 616 761**	**37 245 921**	**3 647 206**	**16 870 696**	**278 380 584**
Moscow	150 235 049	26 340 455	3 080 947	-	179 656 451
Moscow Region	70 381 712	10 905 466	566 259	-	81 853 437
Unallocated	-	-	-	16 870 696	16 870 696
Capital expenditure	**29 527 429**	**131 268**	**48 550**	**-**	**29 707 247**
Moscow	18 785 151	-	46 734	-	18 831 885
Moscow Region	10 742 278	131 268	1 816	-	10 875 362
31 December 2010					
Total assets	**199 929 301**	**40 317 579**	**2 971 682**	**14 935 932**	**258 154 494**
Moscow	139 800 918	30 173 105	2 471 689	-	172 445 712
Moscow Region	60 128 383	10 144 474	499 993	-	70 772 850
Unallocated	-	-	-	14 935 932	14 935 932
Capital expenditure	**19 530 828**	**367 960**	**33 232**	**-**	**19 932 020**
Moscow	11 679 272	-	32 910	-	11 712 182
Moscow Region	7 851 556	367 960	322	-	8 219 838

Reconciliation of reportable segments assets:

’000 RUB	2011	2010
Reportable segments assets	257 862 682	240 246 880
Other assets	3 647 206	2 971 682
Unallocated	16 870 696	14 935 932
Total assets per Russian Accounting Standards	**278 380 584**	**258 154 494**
Net-off trade and other receivables and payables	(203 485)	(84 711)
Inventories	(1 854 750)	(2 239 948)
Advances given	(18 564 188)	(17 380 691)
Property, plant and equipment	(1 212 137)	2 228 728
Impairment losses on property, plant and equipment	(39 354)	(526 869)
Allowance for impairment of account receivable and advances for capital expenditure	(1 244 097)	(861 839)
Deferred tax assets	(1 348 436)	(916 682)
Other items	199 095	22 132
Eliminations	(4 554 426)	(4 566 043)
Consolidated assets per IFRS	**249 558 806**	**233 828 571**

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

Segment liabilities are presented in the table below:

’000 RUB	Electricity transmission	Connection services	Other	Unallocated	Total
31 December 2011					
Total liabilities	52 180 495	55 627 690	1 971 206	8 631 132	118 410 523
Moscow	49 193 725	35 852 162	1 822 477	-	86 868 364
Moscow Region	2 986 770	19 775 528	148 729	-	22 911 027
Unallocated	-	-	-	8 631 132	8 631 132
31 December 2010					
Total liabilities	42 102 710	64 502 267	2 153 761	9 992 719	118 751 457
Moscow	38 833 434	42 501 832	2 055 527	-	83 390 793
Moscow Region	3 269 276	22 000 435	98 234	-	25 367 945
Unallocated	-	-	-	9 992 719	9 992 719

Reconciliation of reportable segments liabilities:

’000 RUB	**2011**	**2010**
Reportable segments liabilities	107 808 185	106 604 977
Other liabilities	1 971 206	2 153 761
Unallocated	8 631 132	9 992 719
Total liabilities per Russian Accounting Standards	**118 410 523**	**118 751 457**
Finance lease liabilities	2 920 814	5 743 195
Deferred tax liabilities	4 174 009	4 123 539
Employee benefits	1 356 652	1 649 274
Provision for unused vacations	-	773 126
Provision for legal claims	507 903	641 084
Deferred income	-	(3 169 107)
Net-off trade and other receivables and payables	(203 485)	(84 711)
Other items	(91 476)	(205 828)
Eliminations	(429 367)	(464 132)
Consolidated liabilities per IFRS	**126 645 573**	**127 757 897**

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

6 Revenue

	2011	**2010**
	’000 RUB	**’000 RUB**
Electricity transmission	106 993 823	91 238 959
Revenue from connection services	19 999 236	19 966 619
Other revenue	2 372 935	526 000
	129 365 994	**111 731 578**

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

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

7 Operating expenses

	2011 '000 RUB	2010 '000 RUB
Electricity transmission	(54 130 898)	(44 019 577)
Depreciation and amortisation	(16 538 863)	(13 339 559)
Personnel costs	(14 496 574)	(12 762 263)
Rent	(2 264 658)	(3 353 860)
Repairs, maintenance and installation services	(3 798 275)	(2 791 505)
Third party costs associated with connection services	-	(4 950 115)
Raw materials and supplies	(2 277 337)	(1 888 223)
Consulting, legal, audit services including professional training	(1 257 529)	(1 129 250)
Electricity count services	(423 722)	(324 070)
Insurance	(627 998)	(631 715)
Impairment losses on property, plant and equipment	(4 780)	(34 574)
Telecommunication services	(633 661)	(576 621)
Taxes other than income tax	(542 623)	(502 864)
Security services	(519 184)	(381 956)
Allowance for impairment of trade and other receivables, non-current assets	(3 637 112)	(273 960)
Provision for legal claims	(347 281)	(533 437)
Transportation	(366 510)	(207 610)
Other expenses	(3 766 599)	(1 657 802)
	(105 633 604)	**(89 358 961)**

Third party costs associated with connection services for 2010 year occurred as a result of the Groups' activity under the contracts for supply of connection services provided by third party, which had been terminated since 1 January 2011 without any further costs incurred.

8 Personnel costs

	2011 '000 RUB	2010 '000 RUB
Salaries and wages	(13 592 780)	(11 548 490)
Contributions to State pension fund	(228 120)	(184 646)
Financial aid to employees and pensioners	(546 760)	(481 146)
Expenses in respect of post employment benefits – defined benefit plan	(539 249)	(200 144)
Expenses in respect of post employment benefits – defined contribution plan	(153 624)	(86 148)
Benefit/(expense) in respect of long-term service benefits provided	563 959	(261 689)
	(14 496 574)	**(12 762 263)**

The average number of employees during the year was 16 014 (in 2010: 16 266).

9 Other operating income

	2011 '000 RUB	2010 '000 RUB
Other income	1 377 347	1 454 203
	1 377 347	**1 454 203**

10 Finance income and costs

	2011 '000 RUB	2010 '000 RUB
Finance income		
Interest income	124 081	253 957
	124 081	**253 957**
Finance costs		
Interest on employee benefits obligation	(139 203)	(147 575)
Interest expense	(439 285)	(123 460)
Interest on finance lease	(1 210 738)	(2 219 359)
	(1 789 226)	**(2 490 394)**

11 Income tax expense

	2011 '000 RUB	2010 '000 RUB
Current tax expense		
Current tax expense	(5 802 876)	(5 072 151)
Overprovided in prior periods	1 240 114	-
	(4 562 762)	**(5 072 151)**
Deferred tax		
Origination and reversal of temporary differences	444 734	645 228
Change in tax base of PPE	(1 284 004)	-
	(839 270)	**645 228**
Income tax charge	**(5 402 032)**	**(4 426 923)**

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

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

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

Reconciliation of effective tax rate:

	2011 '000 RUB	%	2010 '000 RUB	%
Profit before income tax	23 444 592	100	21 590 383	100
Income tax at applicable tax rate	(4 688 918)	(20)	(4 318 077)	(20)
Overprovided in prior periods	1 240 114	5	-	-
Change in tax base of PPE	(1 284 004)	(5)	-	-
Non-deductible expenses	(669 224)	(3)	(108 846)	(1)
	(5 402 032)	**(23)**	**(4 426 923)**	**(21)**

12 Property, plant and equipment

'000 RUB	Land and buildings	Trans-mission networks	Transfor-mers and transformer substations	Other	Construction in progress	Total
At 1 January 2010	19 417 749	85 567 834	26 808 285	28 663 403	52 535 693	212 992 964
Additions	16 564	450 087	357 013	794 961	20 460 442	22 079 067
Disposals	(7 080)	(103 851)	(19 464)	(43 256)	(133 165)	(306 816)
Transfers	3 132 869	10 679 363	7 738 669	8 746 111	(30 297 012)	-
At 31 December 2010	**22 560 102**	**96 593 433**	**34 884 503**	**38 161 219**	**42 565 958**	**234 765 215**
Depreciation						
At 1 January 2010	(2 858 723)	(14 272 099)	(5 342 347)	(8 324 010)	(492 295)	(31 289 474)
Depreciation charge	(815 782)	(5 119 446)	(2 113 127)	(5 237 159)	-	(13 285 514)
Impairment losses	-	-	-	-	(34 574)	(34 574)
Disposals	3 833	28 683	11 573	25 829	68	69 986
At 31 December 2010	**(3 670 672)**	**(19 362 862)**	**(7 443 901)**	**(13 535 340)**	**(526 801)**	**(44 539 576)**
Net book value						
At 1 January 2010	16 559 026	71 295 735	21 465 938	20 339 393	52 043 398	181 703 490
At 31 December 2010	**18 889 430**	**77 230 571**	**27 440 602**	**24 625 879**	**42 039 157**	**190 225 639**
At 1 January 2011	22 560 102	96 593 433	34 884 503	38 161 219	42 565 958	234 765 215
Additions	403 205	884 119	234 252	2 013 827	29 068 636	32 604 039
Disposals	(10 484)	(137 204)	(23 764)	(21 045)	(488 856)	(681 353)
Transfers	2 652 165	12 187 284	6 535 153	7 176 905	(28 551 507)	-
At 31 December 2011	**25 604 988**	**109 527 632**	**41 630 144**	**47 330 906**	**42 594 231**	**266 687 901**
Depreciation						
At 1 January 2011	(3 670 672)	(19 362 862)	(7 443 901)	(13 535 340)	(526 801)	(44 539 576)
Depreciation charge	(927 222)	(5 895 947)	(2 169 744)	(7 491 595)	-	(16 484 508)
Impairment losses	-	-	-	-	(4 780)	(4 780)
Disposals	4 020	39 641	11 156	14 995	5 390	75 202
At 31 December 2011	**(4 593 874)**	**(25 219 168)**	**(9 602 489)**	**(21 011 940)**	**(526 191)**	**(60 953 662)**
Net book value						
At 1 January 2011	18 889 430	77 230 571	27 440 602	24 625 879	42 039 157	190 225 639
At 31 December 2011	**21 011 114**	**84 308 464**	**32 027 655**	**26 318 966**	**42 068 040**	**205 734 239**

(a) Impairment of property, plant and equipment

Impairment testing in respect of property, plant and equipment was performed as at 31 December 2011. The majority of the Group's property, plant and equipment is specialised in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2011 was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

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

During the year the management identified and wrote-off items of construction in progress in the amount of RUB 4 780 thousand (2010: RUB 34 574 thousand) which will not be used in operating activities.

(b) Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2011 the net book value of leased plant and machinery was RUB 15 868 096 thousand (31 December 2010: RUB 17 249 961 thousand). The leased equipment secures lease obligations.

(c) Capitalised interest

Borrowing costs totalling RUB 2 165 153 thousand as at 31 December 2011 with a capitalisation rate of 8.16% (2010: RUB 3 363 166 thousand with a capitalisation rate of 9.63%) were included in the cost of property, plant and equipment and represent interest on loans.

(d) Advance payments for property, plant and equipment

As at 31 December 2011 construction in progress includes advance payments for property, plan and equipment of RUB 3 599 713 thousand (31 December 2010: RUB 3 802 930 thousand).

13 Intangible assets

’000 RUB	Software	Certificates and licences	Other	Total
At 1 January 2010	206 320	-	-	206 320
Additions	49 553	-	-	49 553
Disposals	(91 529)	-	-	(91 529)
At 31 December 2010	**164 344**	**-**	**-**	**164 344**
Amortisation				
At 1 January 2010	(110 806)	-	-	(110 806)
Amortisation	(59 531)	-	-	(59 531)
Disposals	91 529	-	-	91 529
At 31 December 2010	**(78 809)**	**-**	**-**	**(78 809)**
Net book value				
At 1 January 2010	95 514	-	-	95 514
At 31 December 2010	**85 535**	**-**	**-**	**85 535**
At 1 January 2011	164 344	-	-	164 344
Additions	418 377	27 987	1 276	447 640
Disposals	(5 381)	-	-	(5 381)
At 31 December 2011	**577 340**	**27 987**	**1 276**	**606 603**
Amortisation				
At 1 January 2011	(78 809)	-	-	(78 809)
Amortisation	(46 070)	(14 466)	(1)	(60 537)
Disposals	5 381	-	-	5 381
At 31 December 2011	**(119 498)**	**(14 466)**	**(1)**	**(133 965)**
Net book value				
At 1 January 2011	85 535	-	-	85 535
At 31 December 2011	**457 842**	**13 521**	**1 275**	**472 638**

14 Investments

	31 December 2011 ’000 RUB	31 December 2010 ’000 RUB
Non-current		
Promissory notes	560 737	499 800
Other investments	-	125 000
	560 737	**624 800**
Current		
Promissory notes	-	1 187
Trust contract	125 000	-
Bank deposit	50 000	-
	175 000	**1 187**

15 Other non-current assets

	31 December 2011 ’000 RUB	31 December 2010 ’000 RUB
Long-term advances for connection services	12 955 817	11 768 621
VAT on advances from customers	3 108 173	1 389 385
Financial assets available-for-sale	441 061	522 634
Other non-current assets	493 607	-
Allowance for impairment on long-term advances	(2 989 838)	-
	14 008 820	**13 680 640**

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

16 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	10 388	-	(12 868 370)	(12 095 525)	(12 857 982)	(12 095 525)
Intangible assets	-	-	(6 329)	(2 145)	(6 329)	(2 145)
Inventories	6 060	519	-	-	6 060	519
Trade and other receivables	2 296 096	1 581 727	-	-	2 296 096	1 581 727
Finance lease liability	2 244 655	2 673 596	-	-	2 244 655	2 673 596
Loans and borrowings	-	-	(221 256)	(221 256)	(221 256)	(221 256)
Employee benefits	180 818	225 328	-	-	180 818	225 328
Trade and other payables	568	-	(682)	(255)	(114)	(255)
Provisions	101 582	282 435	-	-	101 582	282 435
Deferred expenses	401 372	498 053	-	-	401 372	498 053
Other	73 255	114 385	(565)	-	72 690	114 385
Tax assets/(liabilities)	**5 314 794**	**5 376 043**	**(13 097 202)**	**(12 319 181)**	**(7 782 408)**	**(6 943 138)**

(b) Movement in temporary differences during the year

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

’000 RUB	**1 January 2010**	**Recognised in profit or loss**	**31 December 2010**
Property, plant and equipment	(12 424 178)	328 653	(12 095 525)
Intangible assets	3 002	(5 147)	(2 145)
Inventories	(7 787)	8 306	519
Trade and other receivables	864 730	716 997	1 581 727
Finance lease liability	3 273 732	(600 136)	2 673 596
Loans and borrowings	(63 644)	(157 612)	(221 256)
Employee benefits	37 507	187 821	225 328
Trade and other payables	(730)	475	(255)
Provisions	86 526	195 909	282 435
Deferred expenses	635 694	(137 641)	498 053
Other	6 782	107 603	114 385
	(7 588 366)	**645 228**	**(6 943 138)**

17 Inventories

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Raw materials and consumables	1 655 597	1 255 133
Other	451 638	421 799
Allowance for impairment of inventories	(7 231)	(2 268)
	2 100 004	**1 674 664**

18 Trade and other receivables

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Trade receivables	10 654 976	9 472 943
Advances given	4 496 157	4 864 598
VAT on advances from customers	4 754 214	7 741 933
VAT receivable	250 337	2 206
Other receivables	876 010	601 471
VAT recoverable	2 359 750	2 122 127
Allowance for impairment of accounts receivable	(1 289 516)	(832 250)
	22 101 928	**23 973 028**

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

19 Cash and cash equivalents

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Petty cash	3 298	444
Current accounts	3 505 509	1 830 153
Cash equivalents	436 068	1 100 640
Cash and cash equivalents in the statement of financial position and statement of cash flows	**3 944 875**	**2 931 237**

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

20 Equity

(a) Share capital

Share capital	**Ordinary shares 31 December 2011**	**Ordinary shares 31 December 2010**
Issued shares, fully paid	48 707 091 574	48 707 091 574
Par value (in RUB)	RUB 0.50	RUB 0.50

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

(b) Treasury shares

The Group did not hold any own shares as at 31 December 2011 and 31 December 2010.

(c) Dividends

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

In 2011 the Company declared and paid dividends in amount of RUB 1 200 001 thousand (RUB 0.02 per share) (2010: in amount of RUB 450 000 thousand (RUB 0.01 per share)).

21 Earnings per share

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

	31 December 2011	**31 December 2010**
Number of outstanding shares	48 707 091 574	48 707 091 574
Profit for the year attributable to the shareholders of OJSC "MOESK" ('000 RUB)	17 947 766	17 170 787
Earnings per share (RUB)	0.3685	0.3525

22 Loans and borrowings

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

	31 December 2011	31 December 2010
	'000 RUB	'000 RUB
Non-current		
Unsecured bank facility	39 040 137	25 424 735
Promissory notes	-	1 141 848
Finance lease liabilities	926 425	2 905 833
	39 966 562	**29 472 416**
Current		
Unsecured bank facility	-	745 300
Promissory notes	1 254 172	1 386 680
Current portion of unsecured bond issues	3 235 489	5 651 766
Current portion of unsecured bank facility	25 036	10 213
Current portion of finance lease liabilities	1 994 389	2 837 362
	6 509 086	**10 631 321**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

		2011	2010		2011		2010	
'000 RUB	**Currency**	**Nominal interest rate**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank facility	RUB	9.75%	7.76%	2015	1 495 726	1 495 726	1 494 526	1 494 526
Unsecured bonds	RUB	8.05%	8.05%	2011	-	-	2 416 277	2 416 277
Unsecured bonds	RUB	22%-25%	9.3%-25%	2010	3 235 489	3 235 489	3 235 489	3 235 489
Unsecured bank facility	RUB	9.75%	7.80%	2015	2 991 248	2 991 248	2 988 844	2 988 844
Unsecured bank facility	RUB	9.75%	7.80%	2015	2 991 057	2 991 057	2 988 661	2 988 661
Unsecured bank facility	RUB	9.75%	7.87%	2017	2 989 996	2 989 996	2 988 197	2 988 197
Unsecured bank facility	RUB	9.75%	7.87%	2017	2 989 844	2 989 844	2 988 046	2 988 046
Unsecured bank facility	RUB	9.75%	7.87%	2017	620 831	620 831	620 452	620 452
Unsecured bank facility*	RUB	7.75%	8.08%	2013	2 995 628	2 995 628	2 990 932	2 990 932
Unsecured bank facility*	RUB	7.82%	7.82%	2013	2 995 471	2 995 471	2 990 864	2 990 864
Unsecured bank facility*	RUB	7.83%	7.83%	2013	2 995 306	2 995 306	2 990 784	2 990 784
Unsecured bank facility*	RUB	7.80%	7.80%	2014	2 002 564	2 002 564	993 204	993 204
Unsecured bank facility*	RUB	7.80%	7.80%	2014	2 002 564	2 002 564	1 400 438	1 400 438
Unsecured bank facility*	RUB	4.90%	4.90%	2011	-	-	745 300	745 300
Unsecured bank facility*	RUB	7.72%	-	2015	3 002 539	3 002 539	-	-
Unsecured bank facility*	RUB	7.72%	-	2015	2 323 801	2 323 801	-	-
Unsecured bank facility*	RUB	7.72%	-	2015	1 501 269	1 501 269	-	-
Unsecured bank facility*	RUB	6.87%	-	2014	1 051 785	1 051 785	-	-
Unsecured bank facility*	RUB	7.46%	-	2016	2 502 044	2 502 044	-	-
Unsecured bank facility*	RUB	8.50%	-	2016	1 500 000	1 500 000	-	-
Unsecured bank facility*	RUB	MosPrime rate + 2.83%	-	2019	113 500	113 500	-	-
Promissory notes *	RUB	9%	9%	2012	946 834	1 254 172	2 641 659	2 528 528
Finance lease liabilities	RUB	-	-	-	-	2 920 814	-	5 743 195
					43 247 496	**46 475 648**	**34 473 673**	**40 103 737**

*Loans from state controlled entities

Finance lease liabilities are payable as follows:

	2011			2010		
’000 RUB	**Minimum lease payments**	**Interest**	**Principal**	**Minimum lease payments**	**Interest**	**Principal**
Less than one year	2 058 038	63 650	1 994 388	4 048 705	1 211 343	2 837 362
Between one and five years	1 146 987	249 995	896 992	3 575 918	768 097	2 807 821
More than five years	38 823	9 390	29 433	130 760	32 748	98 012
	3 243 848	**323 035**	**2 920 813**	**7 755 383**	**2 012 188**	**5 743 195**

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

OJSC Energocentr

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

Subsequently, bankruptcy proceedings were initiated by OJSC Bank Petrocommerce due to failure to meet the repayment schedule.

According to a court decision, a monitoring procedure was introduced at OJSC Energocentr in August 2010 in accordance with the Russian law on bankruptcy.

On 20 December 2011, the Board of Directors of OJSC Energocentr approved the agreement between OJSC Energocentr and the representative bankruptcy creditors of OJSC Energocentr to restructure OJSC Energocentr debt who initiated bankruptcy procedure.

On 22 December 2011, the creditors` meeting made the decision to conclude the Amicable agreement in relation to bankruptcy of OJSC Energocentr, which was signed on 27 December 2011 in accordance.

On 8 February 2012, the Arbitration court of the Moscow region passed a ruling on the approval of the agreement, concluded between OJSC Energocentr and the representative of the creditors. According to the agreement, OJSC Energocentr undertakes to repay debts in the amount of RUB 3 090 770 thousand over the period of 12 years in accordance with the approved schedule of repayment of the debt.

According to the court decision, the bankruptcy proceedings of OJSC Energocentr were terminated.

23 Employee benefits

(a) Post employment benefits

	2011 '000 RUB	2010 '000 RUB
Total present value of obligations	2 279 495	1 674 219
Unrecognised past service cost	(352 346)	(387 531)
Net actuarial losses not recognised in the statement of financial position	(850 018)	(440 533)
Net liabilities in the statement of financial position	1 077 131	846 155

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

	2011 '000 RUB	2010 '000 RUB
Defined benefit obligations at 1 January	1 674 219	1 127 554
Benefits paid by the plan	(420 492)	(232 676)
Current service cost	150 403	169 855
Interest cost	112 220	101 480
Actuarial losses	427 817	508 006
Past service cost	335 328	-
Defined benefit obligations at 31 December	**2 279 495**	**1 674 219**

(ii) Expense recognised in profit or loss

	2011 '000 RUB	2010 '000 RUB
Current service costs	150 403	169 855
Interest cost	112 220	101 480
Recognised actuarial loss	18 333	472
Past service cost	370 513	29 816
	651 469	**301 623**

(b) Other long-term employee benefits

	2011 '000 RUB	2010 '000 RUB
Present value of obligations	279 521	803 120

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

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

	2011 '000 RUB	2010 '000 RUB
Defined benefit obligations at 1 January	803 120	512 165
Contribution received	(25 159)	(16 830)
Current service costs	41 021	29 450
Interest costs	65 519	46 095
Actuarial (gains)/losses recognised in the statement of comprehensive income	(604 980)	232 240
Defined benifit obligations at 31 December	**279 521**	**803 120**

(ii) Expense recognised in the statement of comprehensive income

	2011 '000 RUB	2010 '000 RUB
Current service costs	41 021	29 450
Interest on obligation	65 519	46 095
Recognised actuarial (gains)/losses	(604 980)	232 240
	(498 440)	**307 785**

(c) Actuarial assumptions

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

	2011	2010
Discount rate at 31 December	8.5%	7%
Future salary increases	5.5%	5.4%
Mortality table	Russian 2002	Russian 2005

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

	2011 '000 RUB	2010 '000 RUB
Operating expenses	(24 710)	461 833
Finance costs	177 739	147 575
	153 029	**609 408**

24 Provisions

'000 RUB	Legal claims
Balance at 31 December 2009	**107 646**
Provisions accrued during the year	617 562
Provisions used during the year	(84 125)
Balance at 31 December 2010	**641 084**
Provisions accrued during the year	961 788
Provisions used during the year	(614 507)
Balance at 31 December 2011	**988 365**

Provision for legal claims relates to the claims brought against the Group within the ordinary course of business. The balance of the provision at 31 December 2011 is expected to be utilised in 2012. The management believes, after taking appropriate legal advice, that the outcome of current legal claims will not give rise to any significant loss beyond the accrued amounts.

25 Trade and other payables

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Non-current		
Advances received	21 139 050	9 593 865
Other payables	1 331 925	1 299 267
	22 470 975	**10 893 132**
Current		
Accounts payable – trade	13 323 017	12 273 820
Advances received	32 207 137	53 235 708
Other payables and accrued expenses	1 928 281	1 254 621
	47 458 435	**66 764 149**

As at 31 December 2011 overdue advances received for connection services were RUB 10 381 803 thousand (31 December 2010: RUB 11 652 488 thousand). The Group's approach to managing liquidity is entering into additional agreements with revised terms of execution.

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

26 Other taxes payable

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Property tax	71 281	48 957
Other taxes	10 623	12 917
Employee taxes	6 308	6 006
Value added tax	24 878	695 502
	113 090	**763 382**

27 Financial risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk.

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

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

(i) Trade and other receivables

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

Approximately 74% (2010: 74%) of the Group's revenue is attributable to sales transactions with a single customer transacting with the Group for over four years, and, consequently, losses have incurred infrequently. For the purpose of monitoring customer credit risk, the remaining customers are grouped according to their credit characteristics, including aging profile, maturity and existence of previous financial difficulties. The Group management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Based on the analysis performed, individual risk limits are set for each group of customers and these limits are reviewed on a regular basis.

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

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

Exposure to credit risk

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

	Carrying amount	
'000 RUB	**31 December 2011**	**31 December 2010**
Trade and other receivables	10 293 774	9 288 053
Cash and cash equivalents	3 944 876	2 931 237
Short-term/long-term investments	735 737	625 987
Available-for-sale financial assets	441 061	522 634
	15 415 448	**13 367 911**

The Group's most significant customer accounts for RUB 7 763 201 thousand of the trade receivables carrying amount at 31 December 2011 (2010: RUB 7 043 080 thousand).

Impairment losses

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

	Gross	**Impairment**	**Gross**	**Impairment**
'000 RUB	**2011**	**2011**	**2010**	**2010**
Not past due	9 288 400	-	8 692 327	4 993
Past due less than 3 months	682 981	5 096	512 060	10 582
Past due from 3 to 6 months	82 900	-	47 798	-
Past due from 6 months to one year	231 685	175 190	13 466	8 890
More than one year	1 214 644	1 026 550	775 223	728 356
	11 500 610	**1 206 836**	**10 040 874**	**752 821**

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

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Balance at 1 January	752 821	648 076
Increase during the period	494 286	137 504
Decrease due to reversal	(40 271)	(32 759)
Balance at 31 December	**1 206 836**	**752 821**

The impairment loss at 31 December 2011 of RUB 1 206 836 thousand (2010: RUB 752 821 thousand) relates to disputable accounts receivable with no payment.

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

(ii) Bank deposits, cash and cash equivalents

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

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's objective of liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

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

As stated in Note 22, by July 2010 OJSC Energocentr failed to repurchase bonds and pay-off coupons on its bonds due to liquidity problems. Included in these consolidated financial statements carrying amount of the total assets of OJSC Energocentr was RUB 7 084 448 thousand as at 31 December 2011 (2010: RUB 6 943 073 thousand).

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

2011 '000 RUB	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	39 065 173	52 217 840	3 413 568	12 023 756	7 644 575	17 098 709	4 873 702	7 163 531
Bonds issued	3 235 489	3 235 489	3 235 489	-	-	-	-	-
Promissory notes	1 254 172	1 340 137	1 340 137	-	-	-	-	-
Finance lease liabilities	2 920 814	3 243 848	2 058 038	784 170	142 853	120 935	99 029	38 823
Trade payables	13 323 017	13 323 017	13 323 017	-	-	-	-	-
	59 798 665	**73 360 331**	**23 370 249**	**12 807 926**	**7 787 428**	**17 219 644**	**4 972 731**	**7 202 354**

2010 '000 RUB	Carrying amount	Contractual cash flows	0-1 years	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Non-derivative financial liabilities								
Loans	26 180 247	34 178 354	4 965 564	1 812 583	10 424 456	1 105 630	8 406 193	7 463 928
Bonds issued	5 651 765	5 781 177	5 781 177	-	-	-	-	-
Promissory notes	2 528 528	2 823 859	1 483 722	1 340 137	-	-	-	-
Finance lease liabilities	5 743 195	7 755 383	4 048 705	2 552 911	890 412	98 093	34 502	130 760
Trade payables	12 273 820	12 273 820	12 273 820	-	-	-	-	-
	52 377 555	**62 812 593**	**28 552 988**	**5 705 631**	**11 314 868**	**1 203 723**	**8 440 695**	**7 594 688**

(d) Market risk

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

(i) Interest rate risk

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

Profile

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

	Carrying amount	
'000 RUB	**2011**	**2010**
Fixed rate instruments		
Financial assets	4 680 612	3 557 224
Financial liabilities	(46 362 149)	(40 103 737)
	(41 681 537)	**(36 546 513)**
Variable rate instruments		
Financial liabilities	**(113 499)**	**-**

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. There were no variable rate instruments at 31 December 2010.

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

(ii) Foreign currency risks

The Group is not exposed to foreign currency risks.

(e) Fair values versus carrying amounts

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

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

(f) Fair value hierarchy

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

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

Available-for-sale financial assets are recognised in the statement of financial position at their fair value. Fair values were determined based on quoted market prices.

(g) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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

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

	Carrying amount	
'000 RUB	**2011**	**2010**
Total borrowings (Note 22)	46 475 648	40 103 737
Less: Cash and cash equivalents (Note 19)	(3 944 875)	(2 931 237)
Net debt	42 530 773	37 172 500
Equity	122 913 233	106 070 674
Debt to equity ratio	**34.60%**	**35.05%**

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

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

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2011 '000 RUB	31 December 2010 '000 RUB
Less than one year	952 897	2 219 409
Between one and five years	1 094 183	536 541
More than five years	3 955 819	3 826 703
	6 002 899	**6 582 653**

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

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

29 Commitments

Capital commitments
Future capital expenditures for which contracts have been signed as at 31 December 2011 amount to RUB 31 716 988 thousand (31 December 2010: RUB 37 038 128 thousand). Capital commitments for current finance lease agreements for the items of property, plant and equipment amount to RUB 2 735 795 thousand (31 December 2010: RUB 2 735 795 thousand).

30 Contingencies

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies in the Russian Federation

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

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

(d) Environmental matters

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

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

31 Related party transactions

(a) Control relationships

As at 31 December 2011 the Parent of the Group was OJSC MRSK Holding, a state controlled entity. The party with ultimate control over the Group is the Government of the Russian Federation, which held the majority of the voting rights of OJSC MRSK Holding.

(b) Transactions with management and close family members

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

(i) Management remuneration

Total remuneration in the form of salary and bonuses paid to the key management and the members of the Board of Directors during the year ended 31 December 2011 was RUB 325 887 thousand (2010: RUB 278 243 thousand).

(c) Transactions with state-controlled entities

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

Revenues from state-controlled entities for the year ended 31 December 2011 constitute 82% (2010: 86%) of total Group revenues, including 95% (2010: 95%) of electricity transmission revenues.

Electricity transmission costs for state-controlled entities for the year ended 31 December 2011 costitute 66% (2010: 77%)/ of total transmission costs.

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

(d) Pricing policies

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

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

- Transactions involving the entities where the shareholders of the Company have ownership interest of 20% or more;
- Transaction involving the entities where the management of the Company also act in management capacity.

32 Events subsequent to the reporting date

On 15 February 2012, the Group acquired an additional 9 999 shares of OJSC Energocentr a subsidiary of the Group, for a cash consideration of RUB 51 000 thousand, increasing its ownership interest in OJSC Energocentr from 50% to 75% minus one share.