OJSC Moscow Integrated Power Company

Consolidated Financial Statements for the year ended 31 December 2012 and Auditors' Report

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Auditors' Report

To the Shareholders and Board of Directors

Open Joint-Stock Company Moscow Integrated Power Company

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audited entity: OJSC Moscow Integrated Power Company

Registred in the Unified State Register of Legal Entities on 16 December 2004 by the Moscow Inter-Regional Tax Inspectorate No.46 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1047796974092, Certificate series 77 No. 006387601.

Address of the audited entity: 4-a, Elektrodnaya Street, Moscow, Russian Federation, 111141

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

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

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

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

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

Basis for Qualified Opinion

As at 31 December 2012, an impairment loss of RUB 7,993 million has not been recognised in respect of property, plant and equipment. An impairment loss of property, plant and equipment is required by International Financial Reporting Standard IAS 36 *Impairment of Assets* whenever the carrying amount of property, plant and equipment is determined to be higher than its recoverable amount. Had this loss been recognised, the effect would have been to reduce property, plant and equipment by RUB 7,993 million, deferred tax liabilities by RUB 1,599 million, retained earnings by RUB 6,394 million as at 31 December 2012 and to increase the loss by RUB 6,394 million for 2012.

Qualified Opinion

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

Altukhov K.V.

Director, (power of attorney dated 1 October 2010 No. 24/10)

ZAO KPMG
11 June 2013

Moscow, Russian Federation

	Note	2012	2011
Revenue	6	93,526	90,698
Government subsidies		16,117	15,403
Operating expenses	7	(108,277)	(103,765)
Operating profit		**1,366**	**2,336**
Finance income	8	1,453	314
Finance costs	8	(1,345)	(1,175)
Net finance income/(costs)		**108**	**(861)**
Profit before income tax		**1,474**	**1,475**
Income tax expense	9	(1,644)	(3,123)
Loss for the year		**(170)**	**(1,648)**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(356)	(30)
Income tax on other comprehensive income		71	6
Other comprehensive loss for the year, net of income tax		**(285)**	**(24)**
Total comprehensive loss for the year		**(455)**	**(1,672)**
Loss attributable to:			
Owners of the Company		(414)	(3,180)
Non-controlling interest		244	1,532
Loss for the year		**(170)**	**(1,648)**
Total comprehensive loss attributable to:			
Owners of the Company		(699)	(3,204)
Non-controlling interest		244	1,532
Total comprehensive loss for the year		**(455)**	**(1,672)**

These consolidated financial statements were approved by management on 11 June 2013 and were signed on its behalf by:

Likhachev A.N.
General Director

Kiryanova E.A.
Chief Accountant

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 12 to 44.

	Note	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	10	177,754	163,604
Intangible assets	11	2,520	2,174
Financial assets available-for-sale	12	3,465	2,924
Deferred tax assets	13	7	57
Other non-current assets		-	139
Total non-current assets		**183,746**	**168,898**
Current assets			
Inventories	14	2,083	1,660
Financial assets at fair value through profit or loss	12	233	1,988
Promissory notes		16	5,075
Loans given		312	173
Short-term bank deposits		5,000	-
Trade and other receivables	15	22,680	17,795
Government subsidies receivable		290	318
Income tax receivable		1,288	432
Advances paid and prepaid expenses		672	783
Other taxes receivable	16	877	748
Cash and cash equivalents	17	2,957	8,178
Total current assets		**36,408**	**37,150**
Total assets		**220,154**	**206,048**

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 12 to 44.

	Note	2012	2011
EQUITY AND LIABILITIES			
Equity			
Share capital	18	24,414	23,063
Additional paid-in capital	18	138,596	130,413
Treasury shares	18	(16,669)	(16,654)
Available-for-sale investments revaluation reserve		1,235	1,520
Property, plant and equipment revaluation reserve		-	378
Retained earnings		(656)	(6,751)
Total equity attributable to equity holders of the Company		**146,920**	**131,969**
Non-controlling interest		-	16,070
Total equity		**146,920**	**148,039**
Non-current liabilities			
Loans and borrowings	19	9,244	19,378
Finance lease liabilities	20	175	257
Employee benefits	21	1,047	1,942
Deferred income	22	5,857	4,079
Deferred tax liabilities	13	11,065	7,446
Trade and other payables		97	132
Total non-current liabilities		**27,485**	**33,234**
Current liabilities			
Loans and borrowings	19	22,134	1,803
Finance lease liabilities	20	184	261
Trade payables	23	18,814	14,660
Advance subsidies received		707	1,270
Advances from customers		1,855	3,203
Income tax payable		85	530
Other payables and accrued expenses	24	1,970	3,048
Total current liabilities		**45,749**	**24,775**
Total liabilities		**73,234**	**58,009**
Total equity and liabilities		**220,154**	**206,048**

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 12 to 44.

	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		1,474	1,475
Adjustments for:			
Depreciation and amortization	10, 11	16,539	17,891
Allowance for impairment/(reversal of allowance) of receivables		1,088	(11)
(Reversal)/allowance for legal claims and tax disputes		(513)	274
Loss on disposal of property, plant and equipment and other assets		1,248	676
Actuarial (gains)/losses	21	(151)	348
Net finance costs		(108)	861
Other non-cash transactions		(944)	(363)
Cash from operating activities before changes in working capital and provisions		**18,633**	**21,151**
Change in inventories		(637)	(307)
Change in trade and other receivables		(9,141)	(3,029)
Change in advances paid and prepaid expenses		95	(548)
Change in other taxes receivable		(129)	299
Change in employee benefits		(636)	(185)
Change in trade payables		7,300	707
Change in advance subsidies received		(535)	1,123
Change in financial assets at fair value through profit or loss		1,506	(2,046)
Change in advances from customers		(1,348)	628
Change in other payables and accrued expenses		(366)	587
Change in other non-current assets		139	(44)
Cash flows from operations before income taxes and interest paid		**14,881**	**18,336**
Interest paid		(2,158)	(1,010)
Income tax refund/(paid)		795	(287)
Net cash from operating activities		**13,518**	**17,039**

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 12 to 44.

	Note	2012	2011
Cash flows from investing activities			
Acquisition of property, plant and equipment		(27,288)	(18,683)
Proceeds from sale of property, plant and equipment		3	142
Acquisition of intangible assets		(894)	(286)
Acquisition of financial assets available-for-sale	12	(912)	(408)
Proceeds from sale of financial assets available-for-sale	12	45	491
Short-term bank deposits placed		(5,000)	-
Short-term bank deposits returned		-	500
Acquisition of promissory notes and loans granted		(10,305)	(5,235)
Repayment of loans and promissory notes		15,213	445
Dividends and interest received		1,407	257
Net cash used in investing activities		**(27,731)**	**(22,777)**
Cash flows from financing activities			
Proceeds from borrowings		87,763	42,147
Repayment of borrowings		(77,589)	(29,994)
Payment of finance lease liabilities		(518)	(853)
Purchase of treasury shares		(15)	-
Change in non-controlling interests		(369)	46
Distributions to owners		(280)	-
Net cash from financing activities		**8,992**	**11,346**
Net (decrease)/increase in cash and cash equivalents		**(5,221)**	**5,608**
Cash and cash equivalents at 1 January	17	8,178	2,570
Cash and cash equivalents at 31 December	**17**	**2,957**	**8,178**

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 12 to 44.

		Attributable to equity holders of the Company								
	Note	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Available-for-sale investments revaluation reserve**	**Other assets revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2011		**23,063**	**130,413**	**(16,654)**	**1,544**	**378**	**(3,517)**	**135,227**	**14,438**	**149,665**
(Loss)/profit for the year		**-**	**-**	**-**	**-**	**-**	(3,180)	(3,180)	1,532	(1,648)
Other comprehensive income										
Net change in fair value of available-for-sale financial assets not including deferred taxes in the amount of RUB 6 million	12	-	-	-	(24)	-	-	(24)	-	(24)
Total comprehensive income/(loss) for the year		-	-	-	**(24)**	**-**	**(3,180)**	**(3,204)**	**1,532**	**(1,672)**
Transactions with owners, recorded directly in equity										
Changes in non-controlling interest	5(b)	-	-	-	-	-	(54)	(54)	100	46
Balance at 31 December 2011		**23,063**	**130,413**	**(16,654)**	**1,520**	**378**	**(6,751)**	**131,969**	**16,070**	**148,039**

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 12 to 44.

		Attributable to equity holders of the Company								
	Note	**Share capital**	**Additional paid-in capital**	**Treasury shares**	**Available-for-sale investments revaluation reserve**	**Other assets revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2012		**23,063**	**130,413**	**(16,654)**	**1,520**	**378**	**(6,751)**	**131,969**	**16,070**	**148,039**
(Loss)/profit for the year							(414)	(414)	244	(170)
Other comprehensive income										
Net change in fair value of financial assets available for sale, not including deferred taxes in the amount of RUB 71 million	12	-	-	-	(285)	-	-	(285)	-	(285)
Disposal of assets		-	-	-	-	(378)	378	-	-	-
Total comprehensive income/(loss) for the year		**-**	**-**	**-**	**(285)**	**(378)**	**(36)**	**(699)**	**244**	**(455)**
Transactions with owners, recorded directly in equity										
Subsidiary merger	18	1,351	8,183	-	-	-	6,172	15,706	(15,706)	-
Purchase of treasury shares	18	-	-	(15)	-	-	-	(15)	-	(15)
Changes in non-controlling interest	5(b)	-	-	-	-	-	239	239	(608)	(369)
Distributions to owners		-	-	-	-	-	(280)	(280)	-	(280)
Balance at 31 December 2012		**24,414**	**138,596**	**(16,669)**	**1,235**	**-**	**(656)**	**146,920**	**-**	**146,920**

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 12 to 44.

1 BACKGROUND

(a) Organisation and operations

Open Joint-Stock Company Moscow Integrated Power Company (the "Company" or "OJSC MIPC") was established in 2004 as part of a reorganisation of the municipal power assets of the City of Moscow.

The Company's primary business activity is the generation, purchase and supply of heat energy in the form of heating and hot water to commercial and residential customers in the City of Moscow.

As at 31 December 2012 and 2011, the Group comprised OJSC MIPC and the following significant subsidiaries and associates:

		Ownership interest	
Company	**Type of operation**	**31 December 2012**	**31 December 2011**
OJSC "Moskovskaya Teplosetevaya Kompaniya"	Transmission of heat energy	0.00%	67.89%
OJSC "Mosgorenergo"	Energy sale services	100.00%	100.00%
OOO "MIPC-Finance"	Securities trading	100.00%	100.00%
OJSC "MIPC-Project"	Project works	100.00%	100.00%
OJSC "MIPC-Region"	Management of financial and industrial groups and holding companies	0.00%	100.00%
OJSC "MIPC-Generation"	Purchase, sale and supply of heat energy and electric power	100.00%	100.00%
LLC "Razvitiye teplosetevogo kompleksa"	Development of heating networks and related equipment	100.00%	0.00%
LLC "IC MIPC"	Research and development in the fields of natural and technical sciences	99.00%	0.00%

On 1 October 2012, OJSC MTK was merged into the Company as its branch.

The Group's operating facilities are located in Moscow. The registered office of the Company is situated at: 111141, Moscow, Russian Federation, Elektrodnaya street, 4-a.

(b) Relations with the State and its influence on the Group's activities

The controlling shareholder of OJSC MIPC is the Moscow City Government represented by the Property Department, which owned 98.77% of the Company's shares as at 31 December 2012 (31 December 2011: 99.30% of shares).

In the opinion of management, the Russian Federation or "the State" is the Company's ultimate controlling party.

The Group's customer base includes a large number of entities controlled by, or related to, the State. Furthermore, the State controls a number of the Group's suppliers. The Government of the Russian Federation and the Moscow City Government directly affect the Group's operations through regulation by the Moscow Regional Energy Commission of tariffs for heat energy.

In addition, heat energy is sold to residential customers at privileged tariffs, established by the Moscow Regional Energy Commission, which are significantly lower than tariffs for commercial customers. These do not cover the operating expenses of the Group. The Moscow City Government compensates the Group for the difference in tariffs through provision of subsidies, which represent a significant portion of the Group's operating income (refer note 6).

Detailed information about transactions with related parties is disclosed in note 27.

(c) Russian business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for investments at fair value through profit or loss, financial investments classified as available-for-sale and property, plant and equipment received as consideration for shares issued (only upon initial recognition), which 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 million.

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 the Group entities..

(a) Basis of consolidation

(i) 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.

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over financial and operating policies. Associates are accounted for in the consolidated financial statements using the equity method. Investments in associates are carried at cost, as adjusted for the Group's share of post-acquisition changes in associate's net assets, less impairment loss. If the Group's share in losses of associate exceeds the carrying value of investment, it is written down to nil. Further losses are only accounted for to the extent that the Group is committed to provide financial support to such associates or make payments on its behalf.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the relevant associates.

(iii) 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.

(iv) Transactions eliminated on consolidation

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

(b) Foreign currency transactions

Transactions in currencies other than RUB are recorded at the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss.

(c) Financial assets

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.

Financial assets of the Group are classified into the following groups:

- financial assets available-for-sale;
- financial assets at fair value through profit or loss;
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

(ii) Financial assets available-for-sale

Financial assets available-for-sale mainly include listed and non-listed shares stated at fair value.

Listed shares held by the Group that are traded in an active market are recognised initially at fair value plus directly attributable transaction costs. The fair value of other financial assets available-for-sale is determined in accordance with the generally accepted model based on discounted cash flows using the prices applicable in current market transactions. Subsequent to initial recognition, changes in fair value are recognised in other comprehensive income and presented within the investment revaluation reserve with the exception of

impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(iii) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where the financial asset is held for trading, e.g. it has been acquired principally for the purpose of selling in the near future or is designated as such on initial recognition. Such financial assets are stated at fair value, any resulting gains or losses are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

(iv) Loans and receivables

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

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less.

(v) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is tested for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows from the investment have been negatively impacted.

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

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

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. For financial assets available-for-sale, impairment loss is calculated based on their fair values.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets with the exception of receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the allowance account are recognised in profit or loss.

With the exception of financial assets available-for-sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that

the carrying amount of investment at the date impairment is reversed does not exceed what the amortised cost would have been had impairment not been recognised.

When a decline in fair value of financial assets available-for-sale has been recognised in other comprehensive income and there is objective evidence that an investment is impaired, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in profit or loss even though the investment has not been derecognised. Impairment losses previously recognised through profit or loss are not reversed. Any increase in fair value subsequent to recognition of impairment loss is recognised in other comprehensive income.

(vi) Derecognition of financial assets

The Group derecognises a financial asset only when contractual rights to cash flows from the asset expire; or it transfers financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise such financial asset.

(d) Financial liabilities

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

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method.

(i) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

(e) Share capital

Ordinary shares

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

Repurchase of share capital

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

(f) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The acquisition cost includes all costs directly attributable to the purchase of an asset. Cost of assets constructed by the Group includes cost of materials, direct labour costs, all other costs directly attributable to bringing the assets to the operating condition for intended use, as well as the cost of dismantling and transfer of assets and reconstruction of the land occupied by them. Cost of software directly attributable to an asset is capitalised in the cost of this asset. Borrowing costs attributable to acquisition or construction of qualifying assets are capitalised in the cost of the relevant asset. A qualifying asset is an asset its preparation for whose intended use or sale requires more than twelve months.

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

Gain or loss on disposal of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Expenses related to replacement of a part (major component) of an item of property, plant and equipment increase the carrying amount of the item if there is a high probability that the Group will receive future economic benefits as a result of use of this asset embodied and they can be measured reliably. Current repairs and maintenance expenses are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Each major component of an item of property, plant and equipment is amortised on a straight-line basis over its estimated useful life, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

Buildings and constructions	10 - 50 years;
Heating networks	20 years;
Machinery and equipment	10 - 30 years;
Vehicles and other assets	5 - 10 years.

Amortisation methods, estimated useful lives and carrying value of property, plant and equipment are reviewed at each reporting date. Estimates in respect of certain items of plant and equipment were revised in 2012 (see note 10).

(g) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present discounted value of future minimum lease payments at the date of inception, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated useful economic lives or over the term of the lease, if shorter.

If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is the useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the interest on finance leases, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The relevant leased assets are not recognised in the Group's statement of financial position. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

(h) Intangible assets

Intangible assets of the Group primarily comprise software.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

(i) Subsequent expenditure

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

(ii) Amortisation

Intangible assets are amortised from the date when they are ready for use amortisation expense is recognised on a straight-line basis in profit or loss during the useful lives of respective assets, since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset.

Useful lives of intangible assets vary from 1 to 10 years for the current and comparative periods**.**

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

(i) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated.

The recoverable amount of an asset or a cash generating unit is the higher of the value-in-use of this asset (unit) and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets 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 groups of assets (the “cash-generating unit”).

The Group’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash generating unit to which the corporate asset belongs.

An impairment loss is only recognised if the carrying value of an asset or the cash generating unit exceeds its recoverable amount. An impairment loss is recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting dates for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used when calculating the recoverable amount. An impairment loss is reversed only to the amount which may not exceed the original carrying amount that would have been determined (net of accumulated depreciation) had no impairment loss been recognised.

(j) 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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

(k) Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period.

(i) Defined contribution plans

The Group contributes to the Pension Fund of the Russian Federation. The only obligation of the Group with respect to this defined contribution plan is to make specified contributions in the period in which they arise. These contributions are recognised as employee benefit expense in the periods during which services are rendered by employees.

(ii) Defined benefit plans

The Group entities operate defined benefit retirement plans for their employees. The terms and amounts of additional pension benefits are determined by the Collective agreement and Regulation on non-state pension plans.

A defined benefit plan is a plan providing benefits to employees upon their retirement other than a defined contribution plan. The Group's defined benefit plan obligations are calculated separately for each plan by means of estimating the amounts of future benefits that employees have earned during the current and prior periods. The estimated amounts are discounted to their present value and are reduced by any unrecognised past service cost. Calculations are performed by a qualified actuary using the Projected Unit Credit Method.

In the case of an increase of future benefits, the respective increase in past service cost is recognised as an expense on a straight-line basis over the entire period until the benefits become vested. To the extent that the increased benefits are already vested, the relevant expense is recognised in profit or loss in full.

All actuarial gains and losses related to defined benefit plans are recognised in profit or loss in the period in which they arise.

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and amount of the obligation can be reliably estimated. The amount recognised as a provision is the best management estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(m) Revenue

Revenues include the sale of heat, in the form of heating and hot water, services for the transmission of heat and other related services and are measured at the fair value of the consideration received or receivable, excluding value added tax.

Revenue from the sale of heat is recognised on a monthly basis as follows:

- Volume of energy consumed is recognised based on data from metering units, installed at the consumers' buildings or at heat distribution units, based on contractual heat volumes; and
- Tariffs approved by the Moscow Regional Energy Commission.

Certain groups of residential customers are entitled to government subsidies on the basis of specific conditions (e.g. disability, war veteran status) that are provided as a reduction in the amount that the Group is entitled to collect directly from those customers. The Group receives compensation payments from the relevant municipal authorities. Revenues from such customers are recognised on the basis of the amounts that will be collected from both the customers and the state authorities.

(n) Government subsidies

Subsidies provided by the Moscow Government to compensate the Group for losses incurred as a result of the sale of heat to residential customers at lower tariffs (refer note 6), are recognised in profit or loss in the period when they are approved by the Moscow City Government. Subsidies received in advance are recognised as advance subsidies received.

(o) Deferred income

Due to the specific nature of the Group's principal activities, the construction, acquisition and reconstruction of certain property, plant and equipment are financed by Moscow City or by third party developers. Such financing is initially recognised as deferred income and subsequently accreted to operating income on a

straight-line basis over the useful life of property, plant and equipment, the construction or acquisition of which was financed through these sources.

(p) Finance income and costs

Finance income includes interest income from investments, dividends received, income from disposal of financial assets available-for-sale and the effect of discounting of accounts payable. Interest income is recognised in profit or loss as it arises and its amount is calculated by using the effective interest rate method.

Finance costs include interest expense on loans, amortisation of discount on obligations, recognised impairment loss on financial assets, losses on disposal of financial assets and revaluation of financial assets at fair value through profit or loss. All expenses related to debt financing except borrowing costs attributable to acquisition or construction of qualifying assets are recognised in profit or loss using the effective interest rate method.

(q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to 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.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

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.

(r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's

General Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(s) 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 that asset or liability.

(i) Property, plant and equipment

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

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

(ii) Investments in equity and debt securities

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

(iii) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(iv) Non-derivative financial liabilities

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

(t) New Standards and Interpretations not yet adopted

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

- IAS 19 (2011) *Employee Benefits.* The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively.
- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 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. *The Standard has not yet been endorsed in the Russian Federation.*
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs,* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 USE OF ESTIMATES AND JUDGMENTS

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 that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 13 – Deferred tax assets;

Note 15 – Allowances for trade receivables.

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

Note 21 – Retirement benefit liabilities.

5 ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

(a) Set-up of new subsidiaries

On 27 June 2012, the Group established a new subsidiary, OJSC "Razvitiye teplosetevogo kompleksa". The main activity of the entity is the development of heating networks and related equipment.

On 18 September 2012, the Group established a new subsidiary, LLC "Innovation Center MIPC". The establishment of the subsidiary was a venture investment made for the purpose of developing innovative technologies and applying them to the Group's facilities, in line with the planned cooperation between the Group and the innovation centre "Skolkovo". Operations have not commenced by the date of these consolidated financial statements.

In December 2012, OJSC MIPC-Region was liquidated.

(b) Change in non-controlling interests

In August 2011, the Group acquired an additional 0.07% interest in OJSC MTK for a cash consideration of RUB 15.6 million, increasing its ownership in OJSC MTK from 68.09% to 68.16%. The Group recognized a decrease in non-controlling interest of RUB 35.5 million. Upon acquisition, a gain equal to the excess of the Group's share in the carrying value of identifiable net assets acquired over the consideration paid in the amount of RUB 19.9 million was recognized in equity.

In October 2011, the Group disposed of a 0.27% interest in OJSC MTK for a cash consideration of RUB 61.5 million, decreasing its ownership from 68.16% to 67.89%. The Group recognised an increase in non-controlling interest of RUB 135 million, and a loss on disposal of RUB 73.5 million was recognized in retained earnings.

In September 2012, the Group finalised the acquisition of an additional 1.87% interest in OJSC MTK for a cash consideration of RUB 579 million, increasing its ownership in OJSC MTK from 67.89% to 69.76%. The group recognized a decrease in non-controlling interest of RUB 988 million. Upon acquisition, a gain equal to the excess of the Group's share in the carrying value of identifiable net assets acquired over the consideration paid in the amount of RUB 409 million was recognized in equity.

During 9 months 2012, the Group disposed of a 0.68% interest in OJSC MTK for a cash consideration of RUB 210 million, decreasing its ownership in OJSC MTK from 69.76% to 69.08%. As a result of the transaction, the Group recognized an increase in non-controlling interest of RUB 380 million and, a loss on disposal of RUB 170 million was incurred, which was recognized in equity.

(c) Subsidiary merger

On 1 October 2012, the reorganization of OJSC MTK was completed through a merger with OJSC MIPC. As a result, OJSC MTK ceased to exist as a separate legal entity.

The merger was performed by means of a share conversion with the following ratios for conversion: 898.752 ordinary shares of OJSC MTK were converted into one ordinary share of OJSC MIPC.

6 REVENUE

	2012	2011
Revenue from the sale of heat energy	79,814	78,006
Revenue from the transmission of heat	7,874	7,772
Revenue from repair and maintenance services	2,333	2,266
Revenue from other services	3,505	2,654
	93,526	**90,698**

Heat is provided to residential customers at regulated tariffs that are substantially lower than tariffs for commercial customers. The Group is compensated for the difference in tariffs through subsidies from the Moscow City Government. For the year ended 31 December 2012, subsidies amounted to RUB 16,117 million (2011: RUB 15,403 million) and were recognised in profit or loss.

Revenue from other services is mainly comprised of revenue from the resale of electricity acquired from a third party and other insignificant sales.

7 OPERATING EXPENSES

	2012	2011
Purchase of heat and other supplies	57,214	53,029
Wages and other benefits to employees and related taxes	17,518	15,537
Depreciation and amortisation	16,539	17,891
Repairs and technical maintenance	7,223	7,868
Other taxes except profits tax	1,424	1,513
Rent	1,268	1,306
Loss on disposal of property, plant and equipment and other assets	1,248	676
Utilities	1,241	1,104
Change in allowance for impairment of accounts receivable	1,088	(11)
Advisory, legal and information services	861	618
Social expenditure	569	494
Security	434	387
Insurance	333	289
Bank charges	237	468
Telecommunication expenses	186	193
Other duties	102	56
Actuarial (gains)/losses	(151)	348
Change in allowance for legal claims and tax disputes	(513)	274
Other	1,456	1,725
	108,277	**103,765**

8 FINANCE INCOME AND COSTS

	2012	2011
Finance income		
Interest income	1,269	228
Dividends received	128	34
Realised gain on disposal of financial assets available-for-sale	32	42
Effect of discounting of accounts payable	16	10
Profit from disposal of promissory notes	8	-
	1,453	**314**
Finance costs		
Interest on bank loans	898	222
Loss on disposal of financial assets at fair value through profit or loss	247	32
Interest on finance leases	91	170
Interest on defined benefit plans	63	130
Interest on bonds	33	377
Unwinding of discount on accounts payable	10	216
Decrease in fair value of financial assets at fair value through profit or loss	2	27
Other	1	1
	1,345	**1,175**

9 INCOME TAX EXPENSE

	2012	2011
Current income tax expense		
Current year	308	1,402
Adjustments for prior year	(2,404)	75
	(2,096)	1,477
Deferred tax expense		
Origination and reversal of temporary differences	3,740	1,646
	1,644	**3,123**

The Group's applicable tax rate is the income tax rate of 20% for Russian companies.

In 2012 the Group recalculated income tax for prior periods related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment. As a result adjusted tax declarations were submitted to the tax authorities and income tax overprovided in prior periods was recognised. Accordingly the tax value of property, plant and equipment was decreased, which resulted in an increase of deferred tax liabilities.

A reconciliation of the theoretical and actual income tax recognised in profit or loss is as follows:

	2012	%	2011	%
Profit before income tax	1,474	100	1,475	100
Theoretical income tax expense at 20%	295	20	295	20
Tax effect of non-deductible expenses	3,884	263	2,880	195
Tax effect of non-taxable income	(131)	(9)	(127)	(9)
Adjustment for prior years	(2,404)	(163)	75	5
	1,644	**111**	**3,123**	**211**

10 PROPERTY, PLANT AND EQUIPMENT

	Heating networks	Buildings and constructions	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost						
Balance at 1 January 2011	**126,875**	**26,958**	**38,149**	**3,735**	**8,980**	**204,697**
Reclassification	19	(6)	(13)	-	-	-
Additions	-	196	236	238	20,751	21,421
Transfer	16,773	828	2,098	(58)	(19,641)	-
Disposals	(1,358)	(35)	(522)	(24)	(227)	(2,166)
Balance at 31 December 2011	**142,309**	**27,941**	**39,948**	**3,891**	**9,863**	**223,952**
Reclassification	5	209	(220)	3	3	-
Additions	-	96	726	600	30,936	32,358
Transfer	20,266	845	3,307	94	(24,512)	-
Disposals	(1,842)	(374)	(365)	(27)	(753)	(3,361)
Balance at 31 December 2012	**160,738**	**28,717**	**43,396**	**4,561**	**15,537**	**252,949**
Accumulated depreciation						
Balance at 1 January 2011	**(32,265)**	**(2,771)**	**(6,712)**	**(1,762)**	**(174)**	**(43,684)**
Reclassification	(1)	(9)	-	10	-	-
Depreciation charge	(12,746)	(991)	(3,233)	(489)	-	(17,459)
Impairment loss	-	-	-	-	174	174
Disposals	471	12	132	6	-	621
Balance at 31 December 2011	**(44,541)**	**(3,759)**	**(9,813)**	**(2,235)**	**-**	**(60,348)**
Reclassification	21	(190)	165	4	-	-
Depreciation charge	(11,654)	(963)	(2,939)	(454)	-	(16,010)
Disposals	956	72	115	20	-	1,163
Balance at 31 December 2012	**(55,218)**	**(4,840)**	**(12,472)**	**(2,665)**	**-**	**(75,195)**
Net book value						**-**
At 1 January 2011	**94,610**	**24,187**	**31,437**	**1,973**	**8,806**	**161,013**
At 31 December 2011	**97,768**	**24,182**	**30,135**	**1,656**	**9,863**	**163,604**
At 31 December 2012	**105,520**	**23,877**	**30,924**	**1,896**	**15,537**	**177,754**

The Group leases production equipment and vehicles under a number of finance lease agreements. At the end of the lease terms the Group has an option to buy the leased assets at a beneficial price. As at 31 December 2012 the carrying value of leased assets amounted to RUB 1,122 million (2011: RUB 1,392 million).

As at 31 December 2012, construction in progress included advances for capital construction of RUB 1,807 million (2011: RUB 46 million).

For the year ended 31 December 2012, the amount of capitalised interest was RUB 1,250 million (2011: RUB 354 million), with a capitalisation rate of 7% (2011: 7%).

During the year, management revised the estimated useful lives of certain types of heating networks that underwent modernisation. As a result, estimated useful lives of these heating networks were increased from 10 years to 20 years. Had the estimated useful lives not been revised, the depreciation expense would have been higher by RUB 648 million for the year ended 31 December 2012.

11 INTANGIBLE ASSETS

Cost	
At 1 January 2011	**3,321**
Additions	348
Disposals	(235)
At 31 December 2011	**3,434**
Additions	913
Disposals	(725)
At 31 December 2012	**3,622**
Accumulated amortisation	
At 1 January 2011	**(971)**
Amortisation charge	(462)
Disposals	173
At 31 December 2011	**(1,260)**
Amortisation charge	(548)
Disposals	706
At 31 December 2012	**(1,102)**
Net book value	
At 1 January 2011	**2,350**
At 31 December 2011	**2,174**
At 31 December 2012	**2,520**

As at 31 December 2012 intangible assets primarily comprised software.

12 FINANCIAL ASSETS AVAILABLE-FOR-SALE AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value of financial assets available-for-sale and at fair value through profit or loss was determined based on quoted prices.

Available-for-sale financial assets

	% in equity			
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
PIF Perlovsky	41.84	-	923	-
OJSC “Moskovskaya Obyedinennaya Elektrosetevaya Kompaniya”	2.95	2.95	2,166	2,508
OJSC “Mosenergosbyt”	2.74	2.72	342	357
OJSC “FSK UES”	0.01	0.01	30	41
Other	-	-	4	18
			3,465	**2,924**

During 2012, the Group acquired available-for-sale financial assets in the amount of RUB 912 million and disposed of available-for-sale financial assets with a carrying amount of RUB 20 million. These investments were sold for a cash consideration of RUB 45 million, and the cumulative gain in other comprehensive income in the amount of RUB 7 million was transferred to profit or loss.

During 2011, the Group acquired available-for-sale financial assets in the amount of RUB 408 million and disposed of available-for-sale financial assets with a carrying amount of RUB 521 million. These investments were sold for a cash consideration of RUB 491 million, and the cumulative gain in other comprehensive income in the amount of RUB 72 million was transferred to profit or loss.

The decrease in the fair value of financial assets available-for-sale recognised in equity during 2012 amounted to RUB 349 million (2011: increase in fair value of RUB 42 million).

As at 31 December 2012, certain securities with the carrying value of RUB 2,506 million were transferred to a third party under a loan agreement with maturity before 25 November 2013 (2011: RUB 2,866 million, matured before 4 December 2012).

Financial assets at fair value through profit or loss

	31 December 2012	31 December 2011
Equity securities		
OJSC “Novatek”	1	-
OJSC “MRSK Tsentra i Privoljya”	1	-
OJSC “Mosenergo”	1	-
OJSC “Holding MRSK”	-	4
OJSC “Siloviye Maschini”	-	1
Other	10	-
	13	**5**
Debt securities		
OJSC “Russian Railways”	37	187
OJSC “Gazprombank”	26	250
OJSC “RosSelhozBank”	20	-
OJSC “Bashneft”	15	196
OJSC “VBRR”	15	-
OJSC “Russian Standard Bank”	-	152
OJSC “OTP Bank”	-	144
Other	107	1,054
	220	**1,983**
	233	**1,988**

During 2012, the Group acquired financial assets at fair value through profit or loss in the amount of RUB 7,415 million and disposed of financial assets at fair value through profit or loss with a carrying amount of RUB 9,168 million for a cash consideration of RUB 8,921 million.

During 2011, the Group acquired financial assets at fair value through profit or loss in the amount of RUB 10,269 million and disposed of financial assets at fair value through profit or loss with a carrying amount of RUB 8,278 million for a cash consideration of RUB 8,223 million.

The decrease in the fair value of financial assets at fair value through profit or loss was recognised as finance costs in the amount of RUB 2 million (2011: the decrease in the fair value of RUB 27 million).

Management determines the appropriate level of the financial assets using a three – level hierarchy on the basis of the lowest level input that is significant to the fair value measurements. Financial assets available-for sale and financial assets at fair value through profit or loss are classified as Level 1, which is for quoted prices (unadjusted) in active markets for identical assets. There are no financial instruments carried at fair value that are classified as either Level 2 or Level 3, as at 31 December 2012 and 31 December 2011.

13 DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Intangible assets	5	1	-	-	5	1
Property, plant and equipment	-	-	(14,169)	(8,148)	(14,169)	(8,148)
Financial assets available-for-sale	-	-	(309)	(706)	(309)	(706)
Inventories	-	-	(5)	(7)	(5)	(7)
Trade and other receivables	475	354	-	-	475	354
Accounts payable	233	474	-	-	233	474
Other items	190	397	-	-	190	397
Tax loss carry-forwards	2,522	246	-	-	2,522	246
	3,425	**1,472**	**(14,483)**	**(8,861)**	**(11,058)**	**(7,389)**

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax assets and liabilities (after offset) recognised in the consolidated statement of financial position are presented below:

	2012	**2011**
Deferred tax liabilities	(11,065)	(7,446)
Deferred tax assets	7	57
Net deferred tax liabilities	**(11,058)**	**(7,389)**

(b) Movement in temporary differences during the year

	1 January 2012	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**31 December 2012**
Property, plant and equipment	(8,148)	(6,021)	-	(14,169)
Intangible assets	1	4	-	5
Financial assets available-for-sale	(706)	326	71	(309)
Inventories	(7)	2	-	(5)
Trade and other receivables	354	121	-	475
Accounts payable	474	(241)	-	233
Other items	397	(207)	-	190
Tax loss carry-forwards	246	2,276	-	2,522
	(7,389)	**(3,740)**	**71**	**(11,058)**

	1 January 2011	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2011
Property, plant and equipment	(6,607)	(1,541)	-	(8,148)
Intangible assets	3	(2)	-	1
Financial assets available-for-sale	(680)	(32)	6	(706)
Inventories	(3)	(4)	-	(7)
Trade and other receivables	502	(148)	-	354
Loans and borrowings	6	(6)	-	-
Accounts payable	315	159	-	474
Other items	563	(166)	-	397
Tax loss carry-forwards	152	94	-	246
	(5,749)	**(1,646)**	**6**	**(7,389)**

14 INVENTORIES

	2012	2011
Materials	1,296	666
Provisions for obsolescence of materials	(3)	(15)
Spare parts	588	902
Other	202	107
	2,083	**1,660**

15 TRADE AND OTHER RECEIVABLES

	2012	2011
Receivables from sale of heat and water	22,667	14,987
Receivables from transmission of heat	26	3,204
Receivables from services rendered	609	178
Other receivables	2,676	1,636
	25,978	**20,005**
Allowance for impairment	(3,298)	(2,210)
	22,680	**17,795**

The average credit period for the Group's customers is 30 days. During this period, no interest is charged on the outstanding balances. The Group does not hold any collateral in respect of trade and other receivables.

The Group does not perform a formal credit rating analysis before accepting new customers due to the fact that supply of heat is a monopoly service. When a commercial customer fails to timely settle the outstanding amount, the Group's credit controllers send out a formal notification with a request to settle the liability within the following 10 days. In case of further non-payment, the Group has a right to discontinue services to this customer. In respect of residential customers and certain state-controlled entities, this right is limited to the supply of hot water, but does not apply to the supply of heat.

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

When determining the allowance for impairment, management performs an analysis of recoverability of receivables. Customers are grouped according to their credit characteristics, including whether they are individual or a legal entity, aging profile, maturity, and the existence of previous financial difficulties. Allowance rates are determined by reference to past experience and are regularly reassessed based on the facts and circumstances at each reporting date. The Group generally provides fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable; however, certain receivables over 365 days are not provided for based on specific reasons such as a long history of relationship or extended payment terms. Receivables between 90 and 365

days were provided for based on estimated irrecoverable amounts determined by reference to past default experience.

	2012		2011	
	Gross	**Impairment allowance**	**Gross**	**Impairment allowance**
Not past due and past due less than 90 days	19,743	-	16,697	-
Past due 90-180 days	2,747	(825)	701	(200)
Past due 180-360 days	2,025	(1,010)	1,197	(600)
Past due more than one year	1,463	(1,463)	1,410	(1,410)
	25,978	**(3,298)**	**20,005**	**(2,210)**

Management believes that the allowance for impairment of trade and other receivables recognised in the consolidated financial statements is sufficient to cover the Group's credit risk with respect to this type of financial asset.

The Group's exposure to credit risk related to trade and other receivables is disclosed in note 26.

16 OTHER TAXES RECEIVABLE

	2012	2011
VAT receivable	854	696
Other taxes receivable	23	52
	877	**748**

17 CASH AND CASH EQUIVALENTS

	2012	2011
Bank balances	957	8,178
Short-term deposits	2,000	-
	2,957	**8,178**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

18 EQUITY

Share capital

In November 2012, the Federal Stock Market Service registered an additional issuance of 13,514,403 ordinary shares with a par value of RUB 100 each, placed at RUB 706 per share, by means of shares convertion at a ratios: 898.752 ordinary shares of OJSC MTK were converted into one ordinary share of OJSC MIPC.

As the Moscow City Government was the owner of non-controlling stake in OJSC MTK the transaction resulted in dissolving of non-controlling interest. As a result, the Company's share capital increased by RUB 1,351 million, additional paid in capital increased by RUB 8,183 million, and non-controlling interest decreased by RUB 15,706 million. The Group recognised a profit of RUB 6,172 million in equity, with a credit to retained earnings.

As at 31 December 2012, the Company's share capital consisted of 244,134,012 ordinary shares with a par value of RUB 100 each (2011: 230,619,609 shares).

Treasury shares

As at 31 December 2012, the number of treasury shares purchased by the Group equalled 21,748,990 with a total value of RUB 16,669 million (31 December 2011 – 21,729,097 in the amount of RUB 16,654 million).

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.

19 LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 26.

	Interest rate	Maturity	2012	2011
Bonds	6.35%	2013	530	530
OJSC Sberbank	7.53-8.00%	2014	9,244	6,350
OJSC Sberbank	5.50-8.90%	2013	21,478	12,504
OJSC Sberbank	9.00%	2012	-	1
Moscow bank of OJSC Sberbank	5.00%	2012	-	1,503
LLC "SpetsMontajStroy"	1.00-14.28%	2013	6	-
REPO agreements obligations		2013	120	293
			31,378	**21,181**

All borrowings were RUB-denominated and unsecured.

On 31 July 2008, OJSC MIPC placed non-convertible interest-bearing documentary bearer bonds on the MICEX Stock Exchange through an open subscription. The total number of placed bonds amounted to 6,000,000 with a par value and offering price of RUB 1 thousand. These bonds mature within 5 years from the date of placement. The coupon period is 91 days. The terms of placements stipulate a put option which can be exercised within five days of the last coupon period for which the interest rates have been determined, but only where the interest rates for at least one subsequent coupon period have not been determined.

During 2010, LLC "MIPC-Finance" purchased 1,689,535 of bonds owed by OJSC MIPC in the amount of RUB 1,690 million.

In July 2011, the interest rate with respect to the last seven coupons was set at 6.35% per annum. Bond holders have the right to request that the Company repurchases the bonds in July 2013.

In July 2011, the Group repurchased 4,504,241 bonds of RUB 4,504 million by request of bond holders.

As at 31 December 2012, there were 523,645 bonds in issue (2011: 523,645).

20 FINANCE LEASE LIABILITIES

The Group leases production equipment and vehicles under a number of finance lease agreements. At the end of the lease term the Group has an option to purchase leased assets at a beneficial price.

Obligations under finance lease agreements are to be paid as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2012	**2011**	**2012**	**2011**
Within one year	205	325	184	261
Between one and five years	106	202	59	141
More than five years	5,259	5,276	116	116
	5,570	**5,803**	**359**	**518**
Less: future finance charges	(5,210)	(5,285)	-	-
Less: Amount of financing expense and shown under current liabilities	(13)	(12)	-	-
Less: Amount of financing expense and shown under non-current liabilities	(19)	(9)	-	-
Present value of obligations under finance lease	**328**	**497**	**359**	**518**
Less: Amount due for settlement within twelve months and shown under current liabilities	-	-	(184)	(261)
Non-current liabilities	**328**	**497**	**175**	**257**

The Group's exposure to interest rate, foreign currency and liquidity risks related to finance leases is disclosed in note 26.

21 LONG-TERM EMPLOYEE BENEFITS

(a) Defined contribution plans

In 2012 the Group contributed RUB 2,800 million to the Pension Fund of the Russian Federation (2011: RUB 2,505 million).

(b) Defined benefit plans

During the first half of 2012, OJSC MIPC operated an unfunded defined benefit pension plan for 18,287 of its employees. Under this plan a retired employee who worked for the Group for eight or more years is entitled to additional monthly benefits varying from RUB 500 to 1,000 per month, depending on seniority at the Group.

On 12 June 2012, the pension benefit agreement between the Company and the municipal non-state pension fund was cancelled. As a result, the Group recognised profit arising on curtailment of RUB 439 million.

For approximately 2,850 employees, OJSC MIPC as a successor of OJSC MTK started to operate an unfunded defined benefit pension plan for qualifying employees. Under this plan a retired employee who worked for the Group for ten or more years is entitled to additional monthly payments, the amount of which depends on the base portion of the pension and coefficients set by Company's regulation on non-state pension benefits. A new plan does not cover employees who worked for less than ten years with the Group. As a result, the Group recognised further benefit of RUB 382 million related to the plan curtailment.

Movements in the present value of defined benefit obligations were as follows:

	2012	2011
Balance as at 1 January	**1,942**	**1,645**
Current service costs	26	97
Interest expenses	63	130
Actuarial (gains)/losses	(151)	348
Benefits paid	(12)	(245)
Curtailment effect	(821)	(33)
Balance as at 31 December	**1,047**	**1,942**

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2012	2011
Discount rate at 31 December	7%	8%
Future salary increases	6%	8%
Staff turnover	6%	6%
Average age of retirement		
Males	60 years	60 years
Females	55 years	55 years
Longevity at the date of retirement for current pensioners:		
Males	14 years	14 years
Females	22.6 years	22.6 years

Amounts recognised in profit or loss in respect of defined benefit pension plans were as follows:

	2012	2011
Current service costs	26	97
Recognised actuarial (gain)/loss	(151)	348
Interest expenses	63	130
Curtailment effect	(821)	(33)
Total	**(883)**	**542**

(c) Historical information

	2012	2011	2010	2009	2008
Present value of the defined benefit obligation	1,047	1,942	1,645	1,431	1,148

22 DEFERRED INCOME

	2012	2011
Construction of infrastructure financed by third party developers	5,819	4,035
Energy saving fund	38	44
	5,857	**4,079**

In certain cases, when constructing buildings in Moscow, third party developers have to remove the Group's property (heating networks) and subsequently reconstruct it with different characteristics. Reconstruction is financed by third party developers with subsequent transfer of constructed networks to the Group on a free-of-charge basis.

Subsidies for property, plant and equipment reconstruction also include the funds received from the Moscow City budget and used for reconstruction of heating networks.

The energy saving fund reflects capital investments made by the Group under its energy conservation program, as well as the contributions made during the reporting period.

23 TRADE PAYABLES

	2012	2011
Trade payables for heat	6,136	7,226
Trade payables for repairs	4,503	2,495
Trade payables for water	774	445
Trade payables for gas	1,521	1
Other trade payables	5,880	4,493
	18,814	**14,660**

The Group's exposure to liquidity risk related to trade payables is disclosed in note 26.

24 OTHER PAYABLES AND ACCRUED EXPENSES

	2012	2011
Payables to employees	763	890
Taxes payable	982	1,275
Provision for legal claims and tax disputes	19	532
Other	206	351
	1,970	**3,048**

The Group's exposure to liquidity risk related to other payables is disclosed in note 26.

25 OPERATING SEGMENTS

The Group has two reportable segments: generation and sale of heat and transmission of heat, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's General Director reviews internal management reports on at least a quarterly basis. Other business activities include generation and sale of electricity, sales of hot and cold water, sales of sanatorium vouchers and other. These activities are not included in the two operating segments and results from these operations are presented as "Other segments".

Performance is measured based on segment profit before income tax under Russian accounting principles (RAP) which differ significantly from International Financial Reporting Standards. Principal differences relate to measurement of property, plant and equipment and resulting differences in depreciation charges, recognition of provisions and allowances, accounting for finance leases, deferred taxation and certain types of financial asset.

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

Due to OJSC MTC reorganisation the Group's management considers a new management structure that may result in a new composition of operating segments.

	Generation and sale of heat (MIPC)		Transmission of heat (MTK)		Other		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
External revenue	77,969	79,390	14,505	10,955	672	623	93,146	90,968
Inter-segment revenues	901	827	11,904	18,891	7,331	3,130	20,136	22,848
Total revenue	78,870	80,217	26,409	29,846	8,003	3,753	113,282	113,816
Government subsidies	16,140	15,183	28	51	-	-	16,168	15,234
Operating expenses	(20,729)	(19,060)	(4,088)	(6,852)	(2,523)	(1,161)	(27,340)	(27,073)
Purchase of heat energy and other supplies	(66,685)	(68,268)	(1,768)	(2,355)	(4,003)	(2,526)	(72,456)	(73,149)
Depreciation and amortisation	(11,538)	(12,283)	(12,235)	(11,686)	(37)	(39)	(23,810)	(24,008)
Repairs and technical maintenance	(2,993)	(1,625)	(5,780)	(6,862)	(16)	(8)	(8,789)	(8,495)
Reportable segment operating profit/(loss)	(6,935)	(5,836)	2,566	2,142	1,424	19	(2,945)	(3,675)
Interest income	555	361	176	195	1,017	112	1,748	668
Increase in fair value of financial assets at fair value through profit or loss	3,950	1,573	-	-	-	81	3,950	1,654
Interest expense	(1,589)	(905)	(61)	(58)	(1,006)	(415)	(2,656)	(1,378)
Decrease in fair value of financial assets at fair value through profit or loss	(3,793)	(30)	-	-	-	(2,436)	(3,793)	(2,466)
(Loss)/ profit before income tax	**(7,812)**	**(4,837)**	**2,681**	**2,279**	**1,435**	**(2,639)**	**(3,696)**	**(5,197)**
Income tax (expense)/benefit	(882)	(1,342)	(240)	(742)	(200)	49	(1,322)	(2,035)
(Loss)/ profit for the year	**(8,694)**	**(6,179)**	**2,441**	**1,537**	**1,235**	**(2,590)**	**(5,018)**	**(7,232)**
Reportable segment assets	155,481	172,522	56,089	57,502	35,156	25,804	246,726	255,828
Reportable segment liabilities	50,449	40,507	9,661	9,536	17,845	9,684	77,955	59,727
Capital expenditure	9,569	5,698	17,844	14,700	453	9	27,866	20,407

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Revenue

	2012	2011
Total revenue for operating segments	113,282	113,816
Elimination of inter-segment revenue	(20,136)	(22,848)
Adjustments from RAP to IFRS	380	(270)
Consolidated total revenue	**93,526**	**90,698**

Profit or loss

	2012	2011
Loss before income tax	(3,696)	(5,197)
Adjustments from RAP to IFRS		
Depreciation	8,201	7,032
Revaluation of investments	(171)	715
(Allowance)/reversal of allowance for impairment of accounts receivable and advances issued	(483)	534
Deferred income	(4,146)	(441)
Interest capitalised	1,250	354
Other adjustments	519	(1,522)
Total adjustments	**5,170**	**6,672**
Consolidated profit before income tax	**1,474**	**1,475**

Assets

	2012	2011
Total assets for reportable segments	211,570	230,024
Total assets for other segments	35,156	25,804
Total assets	**246,726**	**255,828**
Adjustments from RAP to IFRS		
Revaluation of fixed assets	49,229	41,215
Fixed assets under finance leases	1,230	1,502
Revaluation of fixed assets under RAP	(17,011)	(17,083)
Allowance for impairment of trade and other receivables	(2,095)	(1,554)
Revaluation of investments	4,092	4,262
Consolidation adjustments	(46,407)	(67,924)
Deferred tax assets	(2,843)	(321)
Elimination of inter-segment assets	(10,743)	(10,932)
Other adjustments	(2,024)	1,055
Total adjustments	**(26,572)**	**(49,780)**
Consolidated total assets	**220,154**	**206,048**

Liabilities

	2012	2011
Total liabilities for reportable segments	60,110	50,043
Total liabilities for other segments	17,845	9,684
Total liabilities	**77,955**	**59,727**
Obligations under finance leases	359	518
Employee benefits	1,047	1,942
Deferred tax liabilities	4,113	6,377
Deferred income	4,833	62
Elimination of inter-segment liabilities	(10,743)	(10,932)
Other adjustments	(4,330)	315
Total adjustments	**(4,721)**	**(1,718)**
Consolidated total liabilities	**73,234**	**58,009**

The Group operates in one geographical area: the City of Moscow.

26 FINANCIAL INSTRUMENTS AND 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.

(b) Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of debt and equity balance.

The Group's capital structure includes debt consisting of short-term loans and borrowings, cash and cash equivalents and equity attributable to the Company's shareholders including share capital, reserves and retained earnings.

The management of the Company reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The Group's strategy assumes maintaining debt to equity ratio at the level less than 0.7. As at 31 December 2012 this ratio was 0.53 (2011: 0.4).

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

(c) Major categories of financial instruments

The Group's principle financial liabilities comprise borrowings, finance leases and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as financial assets available-for-sale, financial assets held-for-trading, trade and other receivables, cash and cash equivalents.

(d) Financial risk factors and risk management system

In the normal course of business the Group is exposed to the following financial risks: market risk (including currency risk and equity investments price risk), credit risk and liquidity risk. The Group implemented a risk management system and developed a number of procedures allowing for their qualitative measurement, assessment, control and selection of appropriate techniques for risk management. This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

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.

(e) Market risk

Market risk is defined as the risk that the change of market factors, namely foreign currency exchange rates, interest rates and share prices will have a negative effect on the Group's financial position and performance.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

Currency risk is the risk that changes in interest rates will adversely impact the financial results of the Group.

The Group is not exposed to significant currency risk because it sells services in the domestic market and its revenue does not depend on foreign currency rate fluctuations. The Group has no significant financial assets and liabilities denominated in foreign currency.

The Group's management does not set an acceptable level for foreign currency risk but considers and measures this risk on a regular basis.

(ii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. 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).

The Group is not exposed to interest rate risk since all its loans and borrowings are at fixed interest rate.

(iii) Equity investments price risk

The Group is exposed to equity investments price risks arising from equity investments.

The Group's strategy in respect of equity investments assumes the purchase of the most liquid securities of stable issuers and regular monitoring of market indicators.

The Group's sensitivity analysis to a change by 20% of the market price of shares included in the Group's investment portfolio is presented below:

- The effect on profit before tax for the year ended 31 December 2012 would have been RUB 3 million in case of share price increase or decrease (2011: RUB 1 million); and
- The effect on investment revaluation reserve within equity would have been RUB 255 million in case of share price increase or decrease (2011: RUB 323 million).

(f) Credit risk

Credit risk is a risk that counterparty may default on its contractual obligations to the Group, resulting in financial loss to the Group. The Group's credit risk arises from cash and its equivalents and uncollaterised trade and other receivables and loans issued.

The carrying value of financial assets reflects the maximum exposure of the Group to credit risk. The maximum credit risk level was:

	Carrying amount	
	2012	**2011**
Financial assets available-for-sale	3,465	2,924
Financial assets at fair value through profit or loss	233	1,988
Loans issued	312	173
Promissory notes	16	5,075
Short-term bank deposits	5,000	-
Trade and other receivables	22,680	17,795
Cash and cash equivalents	2,957	8,178
	34,663	**36,133**

The Group's policy and procedures for acceptance of new customers and assessment of customers' creditworthiness are disclosed in note 15.

None of the Group's customers individually account for more than 3% of the total trade accounts receivable, thus there is no concentration of credit risk.

(g) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling all liabilities as they fall due. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

In order to mitigate liquidity risk the Group developed a regulation on credit policy which defines the procedure for assessment of the Company's financial stability and credit capacity. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The maturity profile of the Group's financial obligations based on contractual undiscounted payments including interest is presented below. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

	31 December 2012							
	0-6 months	**6-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
Bank loans	6,499	17,069	9,677	-	-	-	-	33,245
Bonds	23	532	-	-	-	-	-	555
Finance lease liabilities	141	64	57	15	16	18	5,259	5,570
Trade payables	18,799	15	29	29	29	29	6	18,936
	25,462	**17,680**	**9,763**	**44**	**45**	**47**	**5,265**	**58,306**

	31 December 2011							
	0-6 months	**6-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**>5 years**	**Total**
Bank loans	2,507	699	13,869	6,709	-	-	-	23,784
Bonds	17	17	549	-	-	-	-	583
Finance lease liabilities	179	146	155	14	15	18	5,276	5,803
Trade payables	14,636	24	33	33	25	18	-	14,769
	17,339	**886**	**14,606**	**6,756**	**40**	**36**	**5,276**	**44,939**

(h) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	Carrying amount 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
Financial assets at fair value through profit or loss	233	233	1,988	1,988
Financial assets available-for-sale	3,465	3,465	2,924	2,924
Trade and other receivables	22,680	22,548	17,795	17,691
Promissory notes	16	16	5,075	5,075
Loans given	312	312	173	173
Loans and borrowings	31,378	29,300	21,181	19,276
Trade payables	18,814	17,825	14,660	13,952
Obligations under financial leases	359	366	518	556

The basis for determining fair values is disclosed in note 3.

The interest rates used to discount estimated cash flows, where applicable, are based on the weighted-average interest rates for bank credits at the reporting date, and are as follows:

2012	2011
7.3%-11.6%	7.3%-10.9%

27 RELATED PARTY TRANSACTIONS

Related parties include shareholders, associates, entities under common control with the Group and key management personnel. The nature of business relationships with the related parties, significant transactions and significant balances for the years ended 31 December 2012 and 2011 are discussed below.

(a) Control relationships

The majority shareholder of OJSC MIPC is the Moscow City Government represented by the Property Department. Moscow Property Department does not prepare publicly available IFRS financial statements. All parties that are ultimately controlled by the Moscow City Government or the Russian Federation are considered to be related.

As disclosed in note 1(b), in the opinion of management, the Russian Federation is the Company's ultimate controlling party.

(b) Transactions with entities under common control

(i) OJCS Mosenergo

OJSC Mosenergo is the major supplier of heat energy to the Group. During the year ended 31 December 2012 the Group made purchases from OJSC Mosenergo in the amount of RUB 31,444 million (2011: RUB 27,808 million). As at 31 December 2012 the total amount of trade accounts payable to OJSC Mosenergo was RUB 6,124 million (2011: RUB 7,006 million).

During the year ended 31 December 2012, the Group also provided heat energy transmission services to OJSC Mosenergo in the amount of RUB 7,874 million (2011: RUB 7,772 million). Trade receivables from this entity as at 31 December 2012 amounted to RUB 26 million (2011: RUB 3,204 million).

As at 31 December 2012, trade accounts receivable from OJSC Mosenergo and trade accounts payable to OJSC Mosenergo were offset in the amount of RUB 3,175 million.

(ii) OOO Gazprom Mezhregiongaz Moscow

OOO Gazprom Mezhregiongaz Moscow is the major supplier of gas to the Group. During the year ended 31 December 2012 the Group made purchases from OOO Gazprom Mezhregiongaz Moscow in the amount of RUB 13,278 million (2011: RUB 11,271 million). As at 31 December 2012 the total amount of trade accounts payable to OJSC Mezhregiongaz was RUB 1,482 million (2011: RUB 1.5 million).

(iii) MSUE Mosvodokanal

During the year ended 31 December 2012, the Group provided maintenance services to MSUE Mosvodokanal in the amount of RUB 2,066 million (2011: RUB 2,018 million). Trade receivables from this entity as at 31 December 2012 amounted to RUB 219 million (2011: RUB 191 million).

The Group also purchased services from MSUE Mosvodokanal and its subsidiaries. During 2012 these purchases amounted to RUB 4,557 million (2011: RUB 3,591 million). As at 31 December 2012 trade and other payables to this entity amounted to RUB 734 million (2011: RUB 443 million).

(iv) Open Joint Stock Company Sberbank

Long-term loans received from OJSC Sberbank and repaid during 2012 amounted to RUB 2,894 million and RUB 1,394 million respectively; short-term loans received and repaid during 2012 equalled RUB 35,245 million (loans in the amount of RUB 16,110 million were reclassified from long-term to short-term) and RUB 24,903 million respectively (2011: RUB 19,294 million and RUB 3,000 million). The interest rate on these unsecured loans was 6-10%. The Group's interest expense amounted to RUB 1,997 million (2011: RUB 286 million).

(v) Joint-Stock Commercial Bank of Moscow

There were no loans received from or paid off to JSCB Bank of Moscow in 2012.

Short-term loans received from the bank and repaid during 2011 amounted to RUB 10,710 million and RUB 12,410 million, respectively. The interest rate on these unsecured loans was 8.25-8.5% per annum. The Group's interest expense equalled RUB 296 million.

(vi) Other related parties

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

- heat is provided to state controlled hospitals, schools, etc.
- purchases of other services from state controlled entities;
- subsidies are received from the Moscow City Government and other state institutions.

For the year ended 31 December 2012, the Group's management estimates that the aggregate amount of transactions with other related parties constitutes at least 50% of heat sales and less than 50% of purchases of other services.

All outstanding balances, other than bank loans, are to be settled in cash within 12 months of the reporting date. None of the balances are secured.

(c) Key management personnel compensation

The remuneration of key management personnel of the Group for the year ended 31 December 2012 amounted to RUB 274 million (2010: RUB 167 million).

28 OPERATING LEASES

The Group leases certain property, plant and equipment with lease terms of less than one year. The Group does not have an option to purchase the leased assets at the expiry of the lease periods. All operating leases are renewable.

The lease payments under operating lease agreements are to be paid as follows:

	2012	2011
Less than one year	1,427	1,599
Between one and five years	951	5,679
More than five years	304	1,609
	2,682	**8,887**

29 CAPITAL COMMITMENTS

As at 31 December 2012, the Group's capital commitments amounted to RUB 5,766 million (2011: RUB 6,665 million), including:

- RUB 5,689 million relate to reconstruction of technological equipment of the Group (2011: RUB 5,788 million);
- RUB 77 million relate to new construction and equipment acquisition (2011: RUB 877 million).

30 CONTINGENCIES

(a) 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.

(b) Environmental matters

The Group's management believes that its production technologies and operations are in compliance with all current existing environmental legislation in the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

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