JSC INTER RAO UES

Consolidated financial statements

For the year ended 31 December 2011
with report of independent auditors

Contents

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Independent auditors' report

To the shareholders and the Board of Directors of
Open Joint Stock Company "INTER RAO UES" (JSC "INTER RAO UES")

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLC

27 April 2012

Consolidated statement of financial position

(in millions of RUR)

	Note	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Assets				
Non-current assets				
Property, plant and equipment	6	227,525	118,705	100,466
Investment property	7	1,211	1,094	2,447
Intangible assets	8	4,814	3,280	3,281
Investments in associates and jointly controlled entities	9	48,035	19,508	16,707
Deferred tax assets	10	1,104	1,418	2,945
Available-for-sale financial assets	11	40,651	202	132
Other non-current assets	12	4,751	6,766	11,293
Total non-current assets		**328,091**	**150,973**	**137,271**
Current assets				
Inventories	13	9,945	6,048	5,983
Accounts receivable and prepayments	14	44,488	42,173	31,589
Income tax prepaid		1,543	478	1,047
Cash and cash equivalents	15	43,518	31,270	14,709
Other current assets	17	42,669	18,148	1,201
		142,163	**98,117**	**54,529**
Assets classified as held-for-sale	16	61,662	–	–
Total current assets		**203,825**	**98,117**	**54,529**
Total assets		**531,916**	**249,090**	**191,800**
Equity and liabilities				
Equity				
Share capital	18	272,997	81,287	63,897
Treasury shares	18	(34,612)	(1,173)	(2,755)
Share premium	18	69,706	11,460	–
Hedge reserve	18	306	(1,230)	5
Fair value reserve	18	(329)	(10)	(25)
Foreign currency translation reserve		(313)	(1,671)	(1,642)
Retained earnings		39,725	27,874	17,655
Total equity attributable to shareholders of the Company		**347,480**	**116,537**	**77,135**
Non-controlling interest		43,177	22,602	18,278
Total equity		**390,657**	**139,139**	**95,413**
Non-current liabilities				
Loans and borrowings	20	44,514	32,598	33,378
Deferred tax liabilities	10	18,939	6,198	4,969
Other non-current liabilities	22	12,347	2,374	11,287
Total non-current liabilities		**75,800**	**41,170**	**49,634**
Current liabilities				
Loans and borrowings	20	3,458	5,936	12,691
Accounts payable and accrued liabilities	21	56,386	58,062	31,617
Other taxes payable	23	5,227	3,714	2,106
Income tax payable		388	1,069	339
Total current liabilities		**65,459**	**68,781**	**46,753**
Total liabilities		**141,259**	**109,951**	**96,387**
Total equity and liabilities		**531,916**	**249,090**	**191,800**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

27 April 2012

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 in Notes 1-36.

Consolidated statement of comprehensive income

(in millions of RUR)

	Note	For the year 2011	For the year 2010 (restated)
Revenue	24	536,244	464,386
Other operating income	25	7,775	3,104
Operating expenses	26	(548,502)	(438,305)
Operating (loss)/profit		**(4,483)**	**29,185**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net	5, 16	44,652	43
Finance income	27	9,099	1,044
Finance expenses	27	(14,417)	(5,769)
Share of profit of associates and jointly controlled entities	9	16,973	1,177
Profit before income tax		**51,824**	**25,680**
Total income tax expense	28	(10,367)	(7,041)
Profit for the period		**41,457**	**18,639**
Other comprehensive income/(loss)			
Revaluation of the available-for-sale financial assets, net of tax	11, 18	(319)	23
Hedge reserve, net of tax	18	1,536	(1,235)
Exchange gain/(loss) on translation to presentation currency		1,420	(32)
Other comprehensive income/(loss), net of tax		**2,637**	**(1,244)**
Total comprehensive income for the period		**44,094**	**17,395**
Profit attributable to:			
Shareholders of the Company		36,144	14,561
Non-controlling interest		5,313	4,078
		41,457	**18,639**
Total comprehensive income attributable to:			
Shareholders of the Company		38,719	13,312
Non-controlling interest		5,375	4,083
		44,094	**17,395**
Basic earnings per ordinary share for profit attributable to the shareholders of the Company	19	**RUR 0.00493**	**RUR 0.00420**
Diluted earnings per ordinary share for profit attributable to the shareholders of the Company	19	**RUR 0.00493**	**RUR 0.00419**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

27 April 2012

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 in Notes 1-36.

Consolidated statement of cash flows

(in millions of RUR)

	Note	For the year 2011	2010 (restated)
Operating activities			
Profit before income tax		**51,824**	**25,680**
Adjustments to reconcile profit before tax to net cash provided by operations:			
Depreciation and amortisation of property, plant and equipment	26	12,503	7,045
Depreciation and amortisation of investment property	26	19	20
Amortisation of intangible assets	26	494	383
Provision for impairment of accounts receivable	26	3,624	2,103
Other provisions charge (release)/charge	13, 21 26	(199)	748
Impairment of available-for-sale financial assets	26	21,130	288
Impairment of assets classified as held-for-sale	26	1,980	–
Write off of bad debt which was not previously provided	26	236	330
Gain on termination of a pension plan in a subsidiary	25	–	(217)
Impairment of property, plant and equipment charge/(release)	26	3,758	(7,483)
Impairment of investment property (release)/charge	7	(93)	171
Impairment of intangible assets	26	31	–
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net	5, 16	(44,652)	(43)
Share of profit of associates and jointly controlled entities	9	(16,973)	(1,177)
Loss on disposal of property plant and equipment		394	176
Income from derivatives trading operations on the electricity market	25	(2,859)	(761)
Expenses from derivatives trading operations on the electricity market	26	2,312	1,562
Foreign exchange loss/(gain)		349	(155)
Interest income	27	(7,871)	(524)
Other finance income	27	(196)	(520)
Interest expense	27	3,224	3,793
Other finance expense	27	367	124
Result from disposal of available-for-sale and held-for-sale financial assets	25	(1,553)	–
Government grants	24	(18)	(96)
Dividend income	27	(881)	–
Option plan	33	1,134	105
Put and call option agreements	27	10,826	1,429
Loss on disposal of group entities	5, 26	19	–
Other non-cash operations/items		5	13
Operating cash flows before working capital changes and income tax paid		**38,934**	**32,994**
(Increase)/decrease in inventories		(830)	242
Decrease/(increase) in accounts receivable and prepayments		5,660	(15,288)
(Increase)/decrease in value added tax recoverable		(1,016)	1,987
Decrease/(increase) in other current assets		524	(7,209)
Increase in accounts payable and accrued liabilities		10,186	13,260
Increase in taxes other than on income prepaid and payable, net		406	67
Income tax paid		(7,676)	(1,868)
Currency translation effect		(187)	(9)
Net cash flows received from operating activities		**46,001**	**24,176**

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 in Notes 1-36.

Consolidated statement of cash flows (continued)

(in millions of RUR)

	Note	For the year 2011	2010 (restated)
Investing activities			
Proceeds from disposal of property, plant and equipment		39	28
Purchase of property, plant and equipment and intangible assets		(26,430)	(17,231)
Purchase of associates and jointly controlled entities		(4)	(1,722)
Purchase of controlling interest, net of cash acquired	5, 18	11,914	(809)
Purchase of non-controlling interest in subsidiary		(235)	1,289
Purchase of available-for-sale financial assets	9, 11	(600)	(335)
Establishment of subsidiary	5	13	–
Disposal of non-controlling interest in subsidiary		3	–
Increase of share capital in an associate		(1,131)	–
Proceeds from disposal of controlling interest	5	(23)	–
Proceeds from disposal of available-for-sale and held-for-sale financial assets	11, 16	3,560	–
Proceeds from repayment of loans issued		2,959	2,208
Loans issued		(2,983)	(2,248)
Bank deposits placed		(15,385)	(545)
Bank deposits returned		2,718	334
Proceeds from disposal of other non-current assets		17	68
Dividends received	9	398	89
Net cash flows used for investing activities		**(25,170)**	**(18,874)**
Financing activities			
Proceeds from loans and borrowings		45,092	84,293
Repayment of borrowings		(49,801)	(91,197)
Repayment of finance lease		(583)	(620)
Interest paid		(2,718)	(3,874)
Dividends paid	18	(1,631)	(2,946)
Proceeds from additional issue of shares	18	50	24,880
Proceeds from treasury shares sale		726	866
Net cash flows (used for) / received from financing activities		**(8,865)**	**11,402**
Effect of exchange rate fluctuations on cash and cash equivalents		282	(143)
Net increase in cash and cash equivalents		**12,248**	**16,561**
Cash and cash equivalents at the beginning of the year	15	31,270	14,709
Cash and cash equivalents at the end of the period	15	**43,518**	**31,270**

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

27 April 2012

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 in Notes 1-36.

Consolidated statement of changes in equity

(in millions of RUR)

		Attributable to shareholders of the Company									
	Note	*Share capital*	*Treasury shares*	*Share premium*	*Foreign currency translation reserve*	*Fair value reserve*	*Hedge reserve*	*Retained earnings*	*Total*	*Non-controlling interest*	*Total equity*
Balance at 1 January 2010 (restated)		63,897	(2,755)	–	(1,642)	(25)	5	17,655	77,135	18,278	95,413
Total comprehensive income/(expense) for the year ended 31 December 2010		–	–	–	(29)	15	(1,235)	14,561	13,312	4,083	17,395
Dividends to shareholders	18	–	–	–	–	–	–	(2,138)	(2,138)	(1,693)	(3,831)
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	(625)	(625)	(990)	(1,615)
Additional issue of shares	18	17,390	–	7,490	–	–	–	–	24,880	–	24,880
Issue of shares by one of entities acquired under common control (JSC OGK-1)		–	–	–	–	–	–	(880)	(880)	2,904	2,024
Acquisition of Group entities		–	–	–	–	–	–	(75)	(75)	6	(69)
Put and call option agreement	18	–	–	3,970	–	–	–	–	3,970	–	3,970
Sale of treasury shares	18	–	337	–	–	–	–	215	552	–	552
Shares option plan	18, 33	–	1,245	–	–	–	–	(825)	420	–	420
		17,390	1,582	11,460	–	–	–	(4,342)	26,090	241	26,331
Balance at 31 December 2010 (restated)		81,287	(1,173)	11,460	(1,671)	(10)	(1,230)	27,874	116,537	22,602	139,139
Balance at 1 January 2011 (restated)		81,287	(1,173)	11,460	(1,671)	(10)	(1,230)	27,874	116,537	22,602	139,139
Total comprehensive income/(expense) for the year ended 31 December 2011		–	–	–	1,358	(319)	1,536	36,144	38,719	5,375	44,094
Dividends to shareholders	18	–	–	–	–	–	–	(565)	(565)	(477)	(1,042)
Acquisition of non-controlling interest in subsidiary	5	–	–	–	–	–	–	(433)	(433)	(75)	(508)
Acquisition of Group entities	5	–	–	–	–	–	–	–		(38)	(38)
Additional issue of shares	18	191,710	(34,006)	58,246	–	–	–	(27,124)	188,826	15,759	204,585
Disposal of non-controlling interest in subsidiary	5	–	–	–	–	–	–	221	221	31	252
Put and call option agreements	18	–	–	–	–	–	–	2,352	2,352	–	2,352
Shares option plan	33	–	46	–	–	–	–	1,097	1,143	–	1,143
Sale of treasury shares	18	–	521	–	–	–	–	159	680	–	680
		191,710	(33,439)	58,246	–	–	–	(24,293)	192,224	15,200	207,424
Balance at 31 December 2011		272,997	(34,612)	69,706	(313)	(329)	306	39,725	347,480	43,177	390,657

Chairman of the Management Board Kovalchuk B.Yu.

Chief Accountant Chesnokova A.O.

27 April 2012

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 in Notes 1-36.

(in million of RUR)

1. The Group and its operations

Establishment of the Group

Open Joint Stock Company "INTER RAO UES" (the "Parent Company" or the "Company" or JSC "INTER RAO UES") was incorporated on 1 November 2002 by the sole shareholder, Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES"). From the date of incorporation until 9 April 2008 the Company's name was JSC "Sochinskaya TPS". On 9 April 2008, based on the shareholder's decision, the Company was renamed JSC "INTER RAO UES".

The Russian Federation is the ultimate controlling party of JSC INTER RAO UES and has a controlling interest in the company of over 50%, including both direct, 14.8%, and indirect ownership, 60.2% as at 31 December 2011 (indirect ownership 64,43% as at 31 December 2010; indirect ownership 57,34 % as at 1 January 2010). The State does not prepare consolidated financial statements for public use.

The Company has controlling interests in a number of subsidiaries operating in different regions of the Russian Federation and abroad. During 2011 year the Group incorporated and acquired a number of new companies that are engaged in electricity production, supply and other activities as presented in Note 5 and Note 1. The Group's principal subsidiaries as at 31 December 2011 are presented in Note 35.

The Group is engaged in the following business activities:

- Electricity production, supply and distribution;
- Export and import of electricity;
- Sales of electricity purchased abroad, on the domestic market;
- Engineering services;
- Energy effectiveness research and development.

At 31 December 2011 the number of employees of the Group was 47,014 (31 December 2010: 42,904; 1 January 2010: 40,204).

With effect from 25 July 2008 the Company's registered office is entrance 7, Krasnopresnenskaya naberezhnaya – 12, 123610, Moscow, Russia. With effect from 29 July 2011 the Company's registered office is entrance 3, Bolshaya Pirogovskaya – 27, 119435, Moscow, Russia.

The Group's business environment

The governments of the countries where the Group companies operate directly affect the Group's operations through regulation with respect to energy generation, purchases and sales. Governmental economic, social and other policies in these countries could have a material effect on the operations of the Group.

The Russian Federation, Georgia, Armenia, Moldova (Transdniestria Republic), Kazakhstan, Lithuania, Latvia and Estonia have been experiencing significant (albeit different) political and economic changes that have affected, and may continue to affect, the activities of the Group enterprises operating in this environment. Consequently, operations in these jurisdictions involve risks that typically do not exist in other mature markets. These risks include matters arising from the policies of the government, economic conditions, the imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The accompanying consolidated financial statements reflect management's assessment of the impact of the business environment in the countries where the Group companies operate on the operations and the financial position of the Group. Management is unable to predict all developments which could have an impact on the utilities sector and the wider economy in these countries and consequently, what effect, if any, they could have on the financial position of the Group. Therefore, the future business environment may differ from management's assessment.

Additional issue of shares by the Parent company

During the meeting held on 25 June 2010 Board of Directors approved the issue of 13.8 billion ordinary shares of JSC INTER RAO UES with the nominal value of RUR 0.02809767 each. During the 1st half 2011, INTER RAO UES issued 6,822,972,629,771 additional shares with the corresponding increase of RUR 191,710 million in share capital (registered).

(in million of RUR)

1. The Group and its operations (continued)

Additional issue of shares by the Parent company (continued)

As a result of placing additional shares, JSC INTER RAO UES became the owner of the following assets:

	Held as at 31 December 2010	Acquired through additional issue during the year 2011		Other acquisitions (not through additional issue)	Held as at 31 December 2011
		% share capital			
***Subsidiaries** (Note 5)*	*% share capital*	*From entities under common control*	*From other parties*	*% share capital*	*% share capital*
Hrazdan Energy Company (RazTES)	–	100.00	–	–	100.00
JSC Altayenergosbyt	–	100.00	–	–	100.00
JSC United Energy Retailing Company	–	100.00	–	–	100.00
LLC RN-Energo	–	100.00	–	–	100.00
JSC Saint-Petersburg Sale Company (Group of companies)	26.75	61.52	–	4.25	92.52
JSC WGC-3 (Group of companies)	–	–	81.93	–	81.93
JSC OGK-1 (Group of companies)	29.03	45.14	0.98	–	75.15
JSC TGK-11 (Group of companies)	32.96	34.35	–	0.40	67.71
JSC Tambov Energy Retailing Company	–	59.38	–	–	59.38
JSC Saratovenergo	–	56.97	–	–	56.97
JSC Mosenergosbyt (Group of companies)	–	50.92	–	–	50.92

Investments in quoted shares

	Acquired through additional issue during the 1st half 2011
	% share capital
JSC Volga TGC	39.39
JSC Bashkirenergo	26.65
JSC RusHydro	1.63
JSC E.ON Russia[1]	3.26
JSC Mosenergo	5.05
JSC OGK-6	13.20
JSC TGC-6	26.08
JSC FGC UES	0.37
JSC OGK-2	3.05
JSC TGK-1	1.97
JSC RAO Energy System of East	4.29
JSC TGK-9	1.71
JSC Kuzbassenergo	1.97
JSC Quadra	2.25
JSC Yenisei TGC (TGC-13)	2.16
JSC TGK-2	1.19
JSC TGK-14	0.60
JSC Novosibirskenergo	0.16

Investments in unquoted shares

	Acquired through additional issue during the 1st half 2011
	% share capital
JSC TGK-11 Holding	19.27
JSC Sangtudinskaya GES-1	14.48

[1] In July 2011 JSC OGK-4 officially became JSC E.ON Russia

(in million of RUR)

1. The Group and its operations (continued)

Assets classified as held-for-sale

	Acquired through additional issue during the 1st half 2011
	% share capital
JSC Irkutskenergo	40.00
JSC Tomskenergosbyt	31.27
JSC Enel OGK-5	26.43
JSC Kuban Generation Company	26.26
JSC Kubanenergosbyt	26.26
JSC Fortum	3.04

2. Basis of preparation

(a) Statement of compliance

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

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the relevant statutory accounting requirements. These financial statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as discussed in Note 3.

(c) Predecessor accounting

In the consolidated financial statements the Group accounted for certain acquisitions presented in the table below as acquisitions amongst entities under common control using the predecessor accounting method (or the pooling-of-interests method). Application of pooling–of-interests method assumes the comparatives are presented as if the entities acquired had always been consolidated. Accordingly, information in respect to the comparative period and the balances as at 1 January 2011 has been restated and prepared as if the acquisitions had occurred from the beginning of the earliest period presented.

The table below summarises the shareholding interest acquired from entities under common control in the year 2011 which have been accounted for under the pooling-of-interests method. The effect of the restatement of the Group's consolidated financial statements is presented in Note 2 (j).

	1 January 2010	*31 December 2010*	*31 December 2011*
JSC RazTES	100.00%	100.00%	100.00%
JSC Altayenergosbyt	100.00%	100.00%	100.00%
JSC United Energy Retailing Company	100.00%	100.00%	100.00%
LLC RN-Energo	100.00%	100.00%	100.00%
JSC Saint-Petersburg Sale Company (Group of companies)	61.52%	61.52%	61.52%
JSC OGK-1 (Group of companies)	66.17%	45.14%	45.14%
JSC TGK-11 (Group of companies)	34.35%	34.35%	34.35%
JSC Tambov Energy Retailing Company	49.01%	59.38%	59.38%
JSC Saratovenergo	49.00%	56.97%	56.97%
JSC Mosenergosbyt (Group of companies)	50.92%	50.92%	50.92%

In December 2010 the share of entities under common control in share capital JSC OGK-1 was diluted from 66.17% to 45.14% due to the additional issue of ordinary shares made by JSC OGK-1. On 21 December 2010 the Group acquired 29.03% interest in the additional issue of shares of JSC OGK-1 (see Note 5).

In the 4th quarter 2010, the entity under common control acquired 10.37% of shares of JSC Tambov Energy Retailing Company and 7.97% of shares of JSC Saratovenergo.

(in million of RUR)

2. Basis of preparation (continued)

(d) Functional and presentation currency

The national currencies of the countries where the Group companies operate are usually the individual company's functional currencies, because they generally reflect the economic substance of the underlying transactions and circumstances of those companies.

Beginning from 1 January 2011 the consolidated financial statements are presented in millions of the Russian Roubles ("RUR") since management believes that this currency became a more useful measure for the potential users of the consolidated financial statements (shareholders and non-equity investors) as a result of the changes in the Group structure - after additional issue of shares made by the Parent in 2011 the main part of the Group is represented by entities operating in the Russian Federation having RUR as their functional currency.

All comparative information was revised from previous presentation currency (thousands of European Euros) to millions of RUR correspondingly (see also Note 2 (j)).

The Group applies judgment in the determination of the functional currencies of certain Group entities. The functional currency determination influences the foreign exchange gain/losses recognised in profit and loss and translation differences recognised in other comprehensive income.

(e) Seasonality

Demand for electricity is to some extent influenced by the season of the year. Revenue is usually higher in the period from October to March than in other months of the year. This seasonality does not impact the revenue or cost recognition policies of the Group.

(f) Going concern

The Financial Statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. These accompanying financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

(g) Critical accounting estimates and judgments

The Group makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. The judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment provision for accounts receivable

The impairment provision for accounts receivable is based on the Group's assessment of the collectability of specific customer accounts. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

If the Group determines that no objective evidence exists that impairment has occurred for an individually assessed accounts receivable, whether significant or not, it includes the account receivable in a group of accounts receivable with similar credit risk characteristics and collectively assesses them for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of accounts receivable that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently (see Note 14).

(in million of RUR)

2. Basis of preparation (continued)

(g) Critical accounting estimates and judgments (continued)

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates. Land and buildings are separable assets and are accounted for separately. Land has an unlimited useful life and therefore is not depreciated.

Loans and borrowings

As at 31 December 2011 the Group accounts for loans with a nominal value of RUR 2,551 million at an amortised cost of RUR 148 million (31 December 2010: a nominal value – RUR 2,746 million: an amortised cost – RUR 145 million; 1 January 2010: a nominal value – RUR 2,523 million: an amortised cost – RUR 260 million). The amortised cost of these loans (see Note 20 (i)) has been calculated taking into account future cash flows associated with the repayment of these loans. The Group assessed future cash flows based on currently available facts and conditions, such as assessments of future capital investments, gas and electricity prices and market rates on similar financial instruments. Changes in any of these conditions or estimates may result in significant adjustments to the carrying value of loans and borrowings.

Tax contingencies

The Group entities operate in a number of tax jurisdictions across Europe and the CIS. Where management believes it is probable that their interpretation of the relevant legislation and the Group’s tax positions cannot be sustained, an appropriate amount is provided for in these financial statements. Tax contingencies are disclosed in Note 32.

Deferred income tax asset recognition

The Group does not recognize certain deferred income tax assets in respect of certain Group entities located in the Russian Federation, Armenia and Kazakhstan as management believe that it is not probable that the future taxable profit will be available in the respective Group entities against which the Group can utilize the benefits. Unrecognised deferred income tax assets are disclosed in Note 10 (b).

(h) Changes in presentation

Segment information

Starting from 1 January 2011, the Group presents segment information based on IFRS financial reporting (see Note 4) as after the additional issue of shares made by the Parent during the 1st half of 2011 chief operating decision-maker (further “CODM”) decided to analyse the effectiveness of the operating segments based on IFRS data. The comparative information was revised correspondingly.

Loans and borrowing

Since 1 January 2011, management of the Company decided to change presentation of loans and borrowing (Note 20) with the emphasis given to a disclosure of loans and borrowings by foreign currencies and creditors rather than the list of individual credit agreements. Management believes that such presentation is more relevant to the users of the consolidated financial statements. The comparative information was revised correspondingly.

(i) Changes in accounting policy

Beginning from 1 January 2011 the Group changed its accounting policy regarding property, plant and equipment from revaluation model to historical cost model (see Note 3). Management believes that given the difficulties in understanding the effects on the financial statements from the application of the revaluation model and given that the most companies in the electricity and power utilities market apply the cost model of accounting of property, plant and equipment, change in accounting policy will lead to more reliable and relevant information regarding property, plant and equipment and improved comparability of the financial statements of the Group to its peers in electricity and power market (see Note 2(j)).

(in million of RUR)

2. Basis of preparation (continued)

(j) Restatement

The comparative information has been restated for the effect of adoption of new accounting policy is described below:

31 December 2010	*As previously reported, in thousand EUR*	*As previously reported, in million RUR*	*Change in accounting policy for PP&E, in million RUR (Note 2 (i))*	*Retrospective consolidation of entities acquired under common control, in million RUR*	*Other changes, in million RUR*	*As restated, in million RUR*
Assets						
Non-current assets						
Property, plant and equipment	1,525,997	61,591	993	56,334	(213)	**118,705**
Investment property	26,920	1,086	8	–	–	**1,094**
Intangible assets	35,916	1,438	–	1,629	213	**3,280**
Investments in associates and jointly controlled entities	1,126,008	45,415	(1,931)	(23,976)	–	**19,508**
Deferred tax assets	33,298	1,337	(527)	310	298	**1,418**
Available-for-sale financial assets		–	–	112	90	**202**
Other non-current assets	81,004	3,268	4	3,584	(90)	**6,766**
Total non-current assets	**2,829,143**	**114,135**	**(1,453)**	**37,993**	**298**	**150,973**
Current assets						
Inventories	68,051	2,749	–	3,299	–	**6,048**
Accounts receivable and prepayments	322,642	12,997	(9)	29,185	–	**42,173**
Income tax prepaid	1,756	70	47	361	–	**478**
Cash and cash equivalents	211,098	8,516	–	22,754	–	**31,270**
Other current assets	421,698	16,999	–	1,149	–	**18,148**
Total current assets	**1,025,245**	**41,331**	**38**	**56,748**	**–**	**98,117**
Total assets	**3,854,388**	**155,466**	**(1,415)**	**94,741**	**298**	**249,090**
Equity and liabilities						
Equity						
Share capital: registered shares	2,186,812	81,287	–	–	–	**81,287**
Treasury shares	(31,569)	(1,173)	–	–	–	**(1,173)**
Share premium	299,520	11,460	–	–	–	**11,460**
Hedge reserve	(30,492)	(1,230)	–	–	–	**(1,230)**
Fair value reserve	–	–	–	(10)	–	**(10)**
Property, plant and equipment revaluation reserve	433,730	17,494	(17,494)	–	–	**–**
Foreign currency translation reserve	(211,597)	138	(1,441)	(368)	–	**(1,671)**
Retained Earnings	(267,995)	(12,036)	18,201	21,709	–	**27,874**
Total equity attributable to shareholders of the Company	**2,378,409**	**95,940**	**(734)**	**21,331**	**–**	**116,537**
Non-controlling interest	16,410	687	(5)	21,920	–	**22,602**
Total equity	**2,394,819**	**96,627**	**(739)**	**43,251**	**–**	**139,139**
Non-current liabilities						
Long-term loans and borrowings	628,131	25,346	–	7,252	–	**32,598**
Deferred tax liabilities	76,973	3,095	(678)	3,483	298	**6,198**
Other non-current liabilities	19,739	797	–	1,577	–	**2,374**
Total non-current liabilities	**724,843**	**29,238**	**(678)**	**12,312**	**298**	**41,170**
Current liabilities						**–**
Short-term loans and borrowings	46,872	1,894	–	4,042	–	**5,936**
Accounts payable and accrued liabilities	651,971	26,260	2	31,800	–	**58,062**
Other taxes payable	25,680	1,036	–	2,678	–	**3,714**
Income tax payable	10,203	413	–	656	–	**1,069**
Total current liabilities	**734,726**	**29,603**	**2**	**39,176**	**–**	**68,781**
Total liabilities	**1,459,569**	**58,841**	**(676)**	**51,488**	**298**	**109,951**
Total equity and liabilities	**3,854,388**	**155,468**	**(1,415)**	**94,739**	**298**	**249,090**

(in million of RUR)

2. Basis of preparation (continued)

(j) Restatement (continued)

31 December 2010	*As previously reported, in thousand EUR*	*As previously reported, in million RUR*	*Change in accounting policy for PP&E, in million RUR (Note 2 (i))*	*Retrospective consolidation of entities acquired under common control, in million RUR*	*Other changes, in million RUR*	*As restated, in million RUR*
For the year ended 31 December 2010						
Revenue	**2,008,926**	**79,971**	**–**	**384,415**	**–**	**464,386**
Other operating income	59,567	2,353	10	741	–	**3,104**
Operating expenses	(1,883,430)	(74,896)	7,995	(371,404)	–	**(438,305)**
Operating profit	**185,063**	**7,428**	**8,005**	**13,752**	**–**	**29,185**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	1,001	43	–	–	–	**43**
Finance income	24,786	982	(130)	192	–	**1,044**
Finance expenses	(125,347)	(4,963)	185	(991)	–	**(5,769)**
Share of profit of associates and jointly controlled entities	282,436	11,378	53	(10,254)	–	**1,177**
Profit before income tax	**367,939**	**14,868**	**8,113**	**2,699**	**–**	**25,680**
Total income tax expense	(77,993)	(3,133)	(1,639)	(2,269)	–	**(7,041)**
Profit for the period	**289,946**	**11,735**	**6,474**	**430**	**–**	**18,639**

(in million of RUR)

2. Basis of preparation (continued)

(j) Restatement (continued)

1 January 2010	*As previously reported, in thousand EUR*	*As previously reported, in million RUR*	*Change in accounting policy for PP&E, in million RUR (Note 2 (i))*	*Retrospective consolidation of entities acquired under common control, in million RUR*	*Other changes, in million RUR*	*As restated, in million RUR*
Assets						
Non-current assets						
Property, plant and equipment	1,305,214	56,696	(7,227)	51,237	(240)	**100,466**
Investment property	56,241	2,447	–	–	–	**2,447**
Intangible assets	33,163	1,428	–	1,613	240	**3,281**
Investments in associates and jointly controlled entities	216,123	9,378	(2,072)	9,401	–	**16,707**
Deferred tax assets	26,300	182	1,161	1,304	298	**2,945**
Available-for-sale financial assets	–	–	–	52	80	**132**
Other non-current assets	271,009	10,528	–	845	(80)	**11,293**
Total non-current assets	**1,908,050**	**80,659**	**(8,138)**	**64,452**	**298**	**137,271**
Current assets						
Inventories	57,244	2,478	–	3,505	–	**5,983**
Accounts receivable and prepayments	273,371	12,011	–	19,578	–	**31,589**
Income tax prepaid	9,108	396	–	651	–	**1,047**
Cash and cash equivalents	190,196	8,246	–	6,463	–	**14,709**
Other current assets	9,464	409	–	792	–	**1,201**
Total current assets	**539,383**	**23,540**	**–**	**30,989**	**–**	**54,529**
Total assets	**2,447,433**	**104,199**	**(8,138)**	**95,441**	**298**	**191,800**
Equity and liabilities						
Equity						
Share capital: registered shares	1,732,306	63,897	–	–	–	**63,897**
Treasury shares	(74,701)	(2,755)	–	–	–	**(2,755)**
Share premium	–	–	–	–	–	**–**
Hedge reserve	106	5	–	–	–	**5**
Fair value reserve	–	–	–	(25)	–	**(25)**
Property, plant and equipment revaluation reserve	438,765	15,851	(15,851)	–	–	**–**
Foreign currency translation reserve	(273,552)	65	(1,775)	68	–	**(1,642)**
Retained Earnings	(524,849)	(20,385)	9,941	28,099	–	**17,655**
Total equity attributable to shareholders of the Company	**1,298,075**	**56,678**	**(7,685)**	**28,142**	**–**	**77,135**
Non-controlling interest	6,232	272	(1)	18,007	–	**18,278**
Total equity	**1,304,307**	**56,950**	**(7,686)**	**46,149**	**–**	**95,413**
Non-current liabilities						
Long-term loans and borrowings	585,793	24,164	–	9,214	–	**33,378**
Deferred tax liabilities	35,481	373	(432)	4,730	298	**4,969**
Other non-current liabilities	227,550	9,870	–	1,417	–	**11,287**
Total non-current liabilities	**848,824**	**34,407**	**(432)**	**15,361**	**298**	**49,634**
Current liabilities						**–**
Short-term loans and borrowings	121,516	5,260	–	7,431	–	**12,691**
Accounts payable and accrued liabilities	150,930	6,673	(22)	24,966	–	**31,617**
Other taxes payable	15,650	672	–	1,434	–	**2,106**
Income tax payable	6,206	239	–	100	–	**339**
Total current liabilities	**294,302**	**12,844**	**(22)**	**33,931**	**–**	**46,753**
Total liabilities	**1,143,126**	**47,251**	**(454)**	**49,292**	**298**	**96,387**
Total equity and liabilities	**2,447,433**	**104,201**	**(8,140)**	**95,441**	**298**	**191,800**

The effects of other changes represent reclassifications between property, plant and equipment and intangible assets in the amount of RUR 213 million as of 31 December 2010 and RUR 240 million as of 1 January 2010; change in presentation of other non-current assets and available-for-sale financial assets in the amount of RUR 90 million as of 31 December 2010 and RUR 80 million as of 1 January 2010; and presentation of deferred tax assets and liabilities amounted of RUR 298 million as of 31 December 2010 and 1 January 2010.

(in million of RUR)

3. Summary of significant accounting policies

The significant accounting policies applied in the preparation of the consolidated statements are described below. These accounting policies have been consistently applied, except for property, plant and equipment (Note 2(i)).

Basis of consolidation

Principles of consolidation

Subsidiaries. Subsidiaries are entities controlled by the Company. Control is presumed to exist when the Company directly or indirectly has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest. Non-controlling interest represents the minority shareholders' proportionate share of the equity and results of operations of the Group's subsidiaries. This has been calculated based upon the non-controlling interests' ownership percentage of these subsidiaries. The non-controlling interest has been disclosed as a part of equity.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Differences between consideration received and carrying value of non-controlling interests sold are also recorded in equity.

Associates and jointly controlled entities. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the net profit/loss of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which the ventures have a shared interest. The entity operates in the same way as other entities, except that a contractual arrangement between the ventures establishes joint control over the economic activity of the entity. Jointly controlled entities are accounted for using the equity method.

The Group discontinues the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, associates and jointly controlled entity.

Transactions eliminated on consolidation. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the investees; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combinations

The acquisitions of entities under common control are accounted for using the predecessor accounting method. In accordance with this method, the consolidated financial statements of the Group is prepared to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, or, if occurred later, from the date when the entities are under common control. Under the predecessor accounting method the assets and liabilities of the combining entities are accounted for at the carrying values determined by the Group in its consolidated financial statements. Comparative information is presented as if the entities had always been consolidated.

All other acquisitions are accounted for by applying the purchase method of accounting.

Under this method when the Group obtains control of an entity or a business it measures the cost of the business combination as the aggregate of:

(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the acquiree; and

(b) any costs directly attributable to the business combination.

The acquisition date for purchase accounting is the date when the Group effectively obtains control of the acquiree.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Foreign currency

Foreign currency transactions and translation. Transactions in foreign currencies are measured in the respective functional currencies of the Group entities at exchange rates effective at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are remeasured to the entities' functional currencies at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are remeasured to the functional currency at the exchange rate at the date that the fair value was determined. Other non-monetary assets and liabilities measured in a foreign currency are remeasured to the functional currency at the exchange rate at the reporting date. Foreign currency differences arising on remeasurement are recognised in profit and loss.

The effect of exchange rate changes on fair value of available-for-sale financial assets, when they are considered non-monetary, is included in the statement of other comprehensive income.

Assets and liabilities of the Company and its subsidiaries are translated into the Group's presentation currency at the exchange rate prevailing at the end of the reporting period. Profit and loss items of the Company and its subsidiaries are translated at the average exchange rate for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions). Components of equity and other comprehensive income are translated at the historic rate with the exception of equity opening balances at the date of transition to IFRS which were translated at the exchange rate at the date of transition. Exchange differences arising on the translation of the net assets of the Company and its subsidiaries are recognised as translation differences in other comprehensive income and included in the foreign currency translation reserve (FCTR) in equity.

Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment.

Renewals and improvements are capitalised and the assets replaced are retired. The costs of repair and maintenance are expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in profit and loss as incurred.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in profit and loss as an expense as incurred.

Social assets are not capitalized as they are not expected to result in future economic benefits to the Group. Costs associated with fulfilling the Group's social responsibilities are expensed as incurred.

Advances for capital construction and acquisition of property, plant and equipment are included into construction in progress.

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences from the time an asset is completed and ready for use. The useful lives are reviewed at each financial year-end and, if expectations differ from previous estimates, the changes are recognised prospectively. The useful lives, in years, of assets by type of facility are as follows:

Type of facility	***Useful life, years***
Buildings	15–100
Hydro engineering structures	17-99
Transmission facilities and equipment	5-50
Thermal networks	10-29
Power equipment	5-66
Other equipment and fixtures	5-40
Other structures	2-30
Other fixed assets	3-20

(in million of RUR)

3. Summary of significant accounting policies (continued)

Investment properties

Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Investment property acquired as a result of business combination is initially recognised at its fair value as a deemed cost at the date of its acquisition. Losses arising due to depreciation and impairment are recorded in profit and loss. Depreciation on investment property is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The useful life for buildings for rent out purposed equalled to 58 years.

Earned rental income is recorded as revenue in profit and loss.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit and loss.

Transfers are made to / from investment property when, and only when, there is a change in use, evidenced ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. Transfers to / from investment property are recognised at cost less any accumulated depreciation and any accumulated impairment losses as a deemed cost at the date of transfer. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible assets

The Group classifies its intangible assets in the following categories:

- goodwill;
- software;
- other intangible assets (which include: a status guaranteeing supplier, costs of projects on development stage and others)

Goodwill. Goodwill arises on the acquisition of subsidiaries, associates and jointly controlled companies.
Goodwill represents the excess of the cost of the acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill in respect of subsidiaries is recognized as a separate asset within intangible assets in the statement of financial position. Goodwill in respect of associates and joint ventures is included in the carrying amount of the investees.

When the excess is negative (“negative goodwill”), the excess is recognized immediately in profit and loss. For associates and jointly controlled entities such excess is recognized in profit and loss as a part of the share of profit / loss of an associate.

Goodwill is measured at cost less accumulated impairment losses and is the subject for an annual impairment test.

Software and other intangible assets. Other intangible assets that are acquired or created (as part of the cost of development projects) by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

The estimated useful lives of intangible assets is in the range of 2-10 years for software and other intangibles assets.

Amortization. Amortization is recognized in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

Internally generated intangible assets

Costs of projects on development stage are recognized as intangible assets to the extent that such expenditure is expected to generate future economic benefits and demonstrated all of the following: (a) the technical feasibility of completing the intangible asset so that it can be available for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; (e) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Leased assets

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

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. The total lease payments are charged to profit or loss on a straight-line basis over the lease term.

Assets classified as held for sale (HFS)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when sale is highly probable within year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. The extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset(or disposal group). Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories

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

The cost of inventories 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.

Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Cash and cash equivalents

Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term, highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

Prepayments

Prepayments made by the Group are carried at cost less provision for impairment. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit and loss.

Prepayments received by the Group are classified as non-current liabilities when the goods or services relating to the prepayment are to be delivered after one year. Where such prepayments relate to construction contracts revenue is recognised when the outcome of the contract can be estimated reliably, by reference to the stage of completion of the contract activity.

Value added tax on purchases and sales

Value added tax related to sales is payable to tax authorities either upon revenue recognition or at the time of collection of receivables from customers, depending on local statutory regulations in respective jurisdictions in which Group entities operate. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the end of the reporting period (deferred VAT) is recognised in the statement of financial position on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor's balance, including VAT. The related deferred VAT liability is maintained until the debt is expensed for tax purposes.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Financial instruments

Financial instruments in the reporting Group include cash and cash equivalents, financial assets, accounts receivable, promissory notes, accounts payable and borrowings. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item. Financial instruments in the reporting represent derivatives and non-derivative financial instruments.

Derivative financial instruments

Derivative financial instruments are a means to transfer risk inherent in the basic instruments, between the parties under the contract, without transfer of the underlying instruments.

As part of trading activities the Group is also appear as a party of the following derivative financial instruments:

a) interest rate swap;

b) currency swap;

c) foreign currency forward and option contract: foreign currency forwards and options are initially recognised at fair value on the date a forward/ option contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cash-flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges;

d) shares option (call or put): options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. Options purchased by the Group provide the Group with the opportunity to purchase (call options) the underlying asset at an agreed-upon value either on or before the expiration of the option.

e) electricity futures and forward contracts: electricity derivatives are initially recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. Fair value gains and losses on those derivatives are presented as part of other comprehensive income to the extent of effective cash-flow hedges and as a part of profit or loss to the extent of ineffective cash flow hedges or speculative transactions.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Compound financial instruments

Compound (hybrid) financial instrument is divided in accordance with the terms of the contract in the following parts: financial obligation/financial asset and equity component. When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. The Group presents the liability and equity components separately in its consolidated statement of financial position. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. Changes in the fair value of an equity instrument are not recognized in the consolidated financial statements. On conversion of a convertible instrument at maturity, the Group derecognizes the liability component and recognizes it as equity. The original equity component remains as equity (although it may be transferred from one line item within equity to another). There is no gain or loss on conversion at maturity.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge);

(c) hedges of a net investment in a foreign operation (net investment hedge).

(in million of RUR)

3. Summary of significant accounting policies (continued)

Compound financial instruments (continued)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Group also documents its assessment, both at the time of the hedges' inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 17, 18, 21, 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Non derivative financial assets

The Group classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss,

b) available-for-sale financial assets,

c) held-to-maturity financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation which determines the method for measuring financial assets at subsequent balance sheet date: amortised cost or fair value.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months of the balance sheet date. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

(b) Available-for-sale investments (AFS)

Investments intended to be held for an indefinite period of time are classified as available-for-sale; these are included in other non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period, they will need to be sold to raise operating capital or they mature within 12 months, in which case they are included in other current assets. Management determines the appropriate categorisation, current or non-current, at the time of the purchase and re-evaluates it based on maturity at the end of each reporting period.

Available-for-sale investments include non-marketable securities, which are not publicly traded or listed. For these investments, fair value is estimated by reference to a variety of methods including those based on their earnings and those using the discounted value of estimated future cash flows. In assessing the fair value, management makes assumptions that are based on market conditions existing at the end of each reporting period. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

'Regular way' purchases and sales of investments are initially measured at fair value plus transaction costs and recognised on the settlement date, which is the date that the investment is delivered to or by the Group. The available-for-sale investments are subsequently carried at fair value. Gains and losses arising from changes in the fair value of these investments are recognised in other comprehensive income and included in the fair value reserve in shareholders' equity in the period in which they arise. Realised gains and losses from the disposal of available-for-sale investments are included in profit and loss in the period in which they arise.

(c) Held-to-maturity financial assets

Financial assets with fixed terms and cash flows are classified as held-to-maturity financial assets, provided management intends to keep them for their full terms and is in a position to do so. Management determines the appropriate classification for its investments on their acquisition dates. Held-to-maturity financial assets are carried at amortised cost based on the effective interest method, net of provisions for impairment losses. Interest earned on held-to-maturity financial assets is recognised as interest income. All purchases and sales made in accordance with standard market conventions for held-to-maturity financial assets are recognised at the date of settlement.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Loans and accounts receivable

Accounts receivable are recorded inclusive of value added taxes (VAT) and are initially recorded at the amount receivable from the debtor. Trade and other receivables are adjusted for an allowance made for impairment of these receivables. Such an allowance for doubtful debtors is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the receivables.

Debt is recognised initially at its fair value net of transaction costs incurred. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective yield method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as an interest adjustment over the period of the debt obligation.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded (Day 1 profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. The use of different pricing models and assumptions could produce materially different estimates of fair values.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at prevailing market rates for similar instruments at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 29.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flows model and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity risk, credit risk, and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Fair value of financial instruments (continued)

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment

Held-to-maturity financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

All impairment losses are recognised in profit and loss.

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

Available-for-sale investments (AFS)

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

Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from those of other assets and groups. Impairment losses are recognised in the consolidated statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

(in million of RUR)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between the amount at initial recognition and the redemption amount is recognised in profit and loss as an interest adjustment over the period of the borrowings.

Employee benefits

Pension and post-employment benefits. In the normal course of business the Group contributes to various governmental pension schemes on behalf of its employees. Mandatory contributions to governmental pension schemes are expensed in profit and loss when incurred. Costs associated with discretionary pensions and other post-employment benefits are included in wages, benefits and payroll taxes in profit and loss, however, separate disclosures are not provided as these costs are not material.

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

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

Defined benefit plans. The Company operates defined benefit plans that cover the majority of its employees. Benefit plans define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses. The defined benefit obligations are calculated using the projected unit credit method.

The present value of the defined obligations are determined by discounting the estimated future cash outflows using interest rate of government bonds that are denominated in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater than 10 percent of the value of plan asset or 10 percent of defined benefit obligations are charged or credited to profit and loss over the employees' expected average remaining working lives.

Share-based payment transactions. The share option programme allows the Company employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the American type options is measured based on the binomial model while fair value of European type options is measured based on the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit and loss on a straight-line basis over the expected lives of the related assets.

(in million of RUR)

3. Summary of significant accounting policies (continued)

Provisions

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

Environmental liabilities

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

Restoration provision

The site restoration provision is calculated based on expected costs and the time required to restore the land occupied by ash dumps after expiry of their useful life to avoid their damaging effect on the environment. The change in provision is related to revised site restoration costs, unwinding of discounts and actual costs incurred.

Shareholder's equity

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared (approved by shareholders) before or on the end of the reporting period. Dividends are disclosed when they are declared after the end of the reporting period, but before the financial statements are authorised for issue.

Earnings per share

Earnings per share is determined by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has dilution effect caused by share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Share premium

Share premium is determined as difference between the issue cost of shares and their nominal value. Share premium is translated into reporting currency using the historical rate as at the date of the transaction and recognised in the consolidated statement of changes in equity.

Revenue

Revenue from the sale of electricity, capacity and heat is recognised in profit and loss on the delivery of electricity, capacity and heat. Where applicable revenue is based on the rates and related restrictions established by law and regulating authorities. The regulatory mechanisms differ from country to country.

Revenue from the rendering of services is recognised in line with the stage of completion of the services. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as part of amounts due to or due from customers for contract work. Revenue amounts are presented exclusive of value added tax.

The Group present s electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

Social expenditure

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

(in million of RUR)

3. Summary of significant accounting policies (continued)

Research expenditure

Research expenditure is recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

Finance income

Finance income comprises interest income on funds invested, accretion income, dividend income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised when the dividends are declared and inflow of economic benefits is probable.

Finance expenses

Finance expenses primarily include interest expense on borrowings, unwinding of any discount on provisions and foreign currency losses. All borrowing costs are recognised in the consolidated statement of comprehensive income using the effective interest method unless directly attributable to acquisition of a qualifying asset. Commission fee for opening of credit lines is included into interest expense.

Income tax expense

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

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

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that the parent is able to control the timing of their reversal and it is probable that they will not reverse in the foreseeable future.

A deferred tax asset for deductible temporary differences and tax losses carry forward is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised.

Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 end of the reporting period.

New accounting pronouncements and revised standards

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2011 are consistent with those followed in the preparation of the Group's annual financial statements for 2010 year, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

(a) The following IFRSs became effective for the Group's financial statements from 1 January 2011:

IAS 24 (Amendment), Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised by: (1) simplifying the definition of a related party, particularly in relation to significant influence and joint control, clarifying its intended meaning and eliminating inconsistencies; and by (2) providing a partial exemption from the disclosure requirements for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring (a) the name of the government and the nature of its relationship with the reporting entity; (b) the nature and amount of individually significant transactions; (c) a qualitative or quantitative indication of the extent of other transactions that are collectively significant. The adoption of the amendment had a significant impact on related party disclosures, including the comparable reporting period. The transactions with the related party of the Group are presented below in Note 33.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *IAS 32 (Amendment), Financial Instruments: Presentation (the amendment is applicable for annual periods beginning on or after 1 February 2010).* Classification of *Rights Issues* clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are classified as equity instruments even if the fixed amount is determined in foreign currency. A fixed amount can be determined in any currency provided that entity offers these instruments pro rata to all of the existing owners of the same class of its own non-derivative equity instruments. The amendment has had no effect on the consolidated financial position or performance of the Group.

- *IFRIC 14 (Amendment), The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (the amendment becomes effective for annual periods beginning on or after 1 January 2011 and is applied retrospectively).*The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contribution to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation had no effect on the consolidated financial position or performance of the Group.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (applicable for annual periods beginning on or after 1 July 2010).*The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as "consideration paid" in accordance with paragraph 41 of IAS 39 *Financial Instruments: Recognition and Measurement*. Additionally, the interpretation clarifies that the equity instrument issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit and loss. If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to modification of the liability outstanding. If so, the consideration paid is allocated between the two parts. The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability. The amendment had no effect on the consolidated financial position or performance of the Group.

- *Improvements to International Financial Reporting Standards (issued in 2010).* In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS report and its first IFRS financial statements;

- *IFRS 3 Business combinations.* The measurement options available for non-controlling interest (NCI) have been amended. Only components of non-controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. For each business combination, the Group measured at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. Additionally, the amendments (i) provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;

- *IFRS 7 Financial Instruments – Disclosures (applied retrospectively).* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collaterals held and improving disclosures by requiring qualitative information to put the quantitative information in context, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the end of the reporting period and not the amount obtained during the reporting period.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *IAS 1 Presentation of Financial Statements.* The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

- *IAS 27 Consolidated and Separate Financial Statements (applied retrospectively).* The standard was amended by clarifying the transition rules for amendments to IAS 21 *The Effect of Changes of Foreign Exchange Rates*, 28 *Investments in Associates* and 31 *Interests in Joint Ventures* made by the revised IAS 27 (as amended in January 2008); and

- *IFRIC 13 Customer Loyalty Programmes.* The amendments states that in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

The amendments did not have any material effect on the consolidated financial statements.

There are other pronouncements, improvements and amendments that are not relevant for the current Group's operations since they will be adopted in 2011 or thereafter.

(b) The following IFRSs and amendments to existing IFRSs that have been published are not yet effective and have not been early adopted by the Group:

- *IFRS 9, Financial Instruments Part 1: "Classification and Measurement."* IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other
  - comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard and the impact on the Group.

- *IFRS 7 (Amendment), Disclosures (the amendment is effective for annual periods beginning on or after 1 July 2011).* Transfers of *Financial Assets* introduces additional disclosure requirements for transfers of financial assets in situations where assets are not derecognised in their entirety or where the assets are derecognised in their entirety but a continuing involvement in the transferred assets is retained. The new disclosure requirements are designated to enable the users of financial statements to better understand the nature of the risks and rewards associated with these assets. The amendment is expected to have no impact on the Group's consolidated financial statements.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *IAS 12 (Amendment), Income taxes – Deferred Tax: Recovery of Underlying Assets (the amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively).* The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is expected to have no impact on the Group's consolidated financial statements.

- *IFRS 10 Consolidated Financial Statements* (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted)*.* IFRS 10 *Consolidated Financial Statements* provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation—Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements*. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

- *IFRS 11 Joint Arrangements (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted).* IFRS 11 *Joint Arrangements* improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers.* Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

- *IFRS 12 Disclosure of Interests in Other Entities (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted*). IFRS 12 *Disclosure of Interests in Other Entities* issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

- *IFRS 13 Fair Value Measurement (the standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted).* IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

- *IAS 27 Separate Financial Statements (Amendment) issued in May 2011 and effective for annual periods beginning on or after 1 January 2013*, there is a possibility of an early use, contains requirements for accounting and disclosure of investments in subsidiaries and associated companies in separate financial statements. It is expected that the amendment will not make a significant impact on the consolidated financial statements of the group.

- *IAS 28 Investments in Associates (Amendment) issued in May 2011 and effective for annual periods beginning on or after 1 January 2013*, there is a possibility of an early use, prescribes the accounting treatment of investments in associated companies and includes a requirement for the application of equity method to investments in associates and joint activities. Currently the Group evaluates possible effect of the adoption on its financial position and performance.

(in million of RUR)

3. Summary of significant accounting policies (continued)

New accounting pronouncements and revised standards (continued)

- *IAS 1 Presentation of Financial Statements (Amendment) issued in June 2011 and* applies to annual reporting periods beginning on or after 1 July 2012, changes the grouping of items presented in the statement of other comprehensive income. According to, the change of the grouping is required to subdivide an article submitted as a part of other comprehensive income, into two categories, based on whether the article be transferred to profit and loss in the future. Used in IAS 1 of the statement of comprehensive income name now changed to the profit and loss statement and other comprehensive income. The Group does not expect new IAS 1 to have a material impact on the consolidated financial position and results of operations.

- *The revised IAS 19 Employee Benefits (released in June 2011*) applies to periods beginning with the 1 January 2013 or after making significant changes to the procedure for the recognition and measurement of the cost of the pension scheme with defined benefit and severance payments, as well as significantly changes the requirements for disclosure of information about all types of remuneration to employees. Changes range from fundamental (for example, the exclusion mechanism corridor and the notion of expected yield of assets plan) to simple wording changes and clarifications. Currently the Group evaluates possible effect of the adoption on its financial position and performance.

- In December 2011, the IASB amended IFRS 7 *Financial instruments: Disclosure* and IAS 32 *Financial Instrument: Presentation.* Amendments clarify assets and liabilities offsetting rules and introduce new related disclosure requirements. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014. The new disclosure requirements in IFRS 7 are effective for annual periods beginning on or after 1 January 2013. The Group will adopt revised IAS 32 from 1 January 2014 and revised IFRS 7 – from 1 January 2013. The Group does not expect the amendments to have a material impact on the consolidated financial position and consolidated results of operations.

There are other improvements, pronouncements and amendments that ate not relevant to the current Group's operations.

The Group considers to adopt the respective amendments of IFRSs when they become effective.

4. Segment information

Operating segments are components of an enterprise about which separate financial information is available and evaluated regularly by the CODM (see Note 2(h)) in deciding how to allocate resources and in assessing performance. The Management Board of the Parent has been determined as the CODM; the operating segment has been defined as a legal entity or a particular business activity of a legal entity.

Before the additional issue of shares made by the Parent during the first half 2011 the segment information was based on the internal management reporting. Since 2011 the Management Board decided to analyse the effectiveness of the operating segments based on IFRS financial reporting. For the purpose of comparability information for the year ended 31 December 2010 and as at 31 December 2010 was provided on the same basis – using IFRS data of the operating segments.

The Management Board considers the Group activities from both geographical (by countries of the Group entities' jurisdiction) and business perspective (generation, trading, supply, distribution, engineering and other) meaning that each operating segment represents a certain type of business activities in a certain country.

The following reporting segments have been identified based on the requirements of IFRS 8 *Operating Segments* (taking into consideration aggregation criteria as well as quantitative thresholds on revenue and EBITDA):

- **Supply in the Russian Federation** (represented by JSC Mosenergosbyt, JSC PSK, JSC Tambov Energy Retailing Company, JSC Saratovenergo, JSC Altayenergosbyt and their management company JSC United Energy Retailing Company, JSC Industrial Energetics, LLC INTER RAO Orlovskii energosbit, LLC RN-Energo, LLC RT – Energy Trading (equity accounting);

(in million of RUR)

4. Segment information (continued)

- **Generation in the Russian Federation** represented by the following reporting sub-segments:
  - *Generation Parent** (represented by generating divisions of the Parent company and JSC INTER RAO Electric Power Plants);
  - *OGK-1** (represented by Group OGK-1, including a 75%-joint-ventures NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES(equity accounting);
  - *TGK-11* (represented by Group TGK-11);
  - *WGC-3** (represented by Group WGC-3) since the end of March 2011.
- **Trading in the Russian Federation and Europe** (represented by the trading activities of the Parent company, RAO Nordic Oy and UAB INTER RAO Lietuva);
- **Georgia** (represented by JSC Telasi, LLC Mtkvari Energy and JSC Khramesi I, Khramesi II (the latter two - since the beginning of April 2011), LLC Khramesi - 3 (since November 2011);
- **Armenia** (represented by JSC Elektricheskiye seti Armenii, JSC RazTec and CJSC International Power Corporation (the latter one – till March 2011);
- **Moldova** (represented by CJSC Moldavskaya GRES);
- **Kazakhstan** (represented by JSC Stantsiya Ekibastuzskaya GRES-2 (equity accounting) and LLP Kazenergoresurs);
- **Engineering in the Russian Federation** (represented by LLC INTER RAO Engineering (since the end of September 2011), LLC Quartz Novie Tekhnologii (equity accounting), LLC UK Quartz (equity accounting), LLC InterRAO-WorleyParsons (equity accounting), LLC Energy Centre INTER RAO (equity accounting) and LLC Interenergoeffect (equity accounting) ;
- Other.

The CODM evaluates performance of the segments based on EBITDA, which is calculated as profit/(loss) for the period before finance income and expenses, income tax expense, depreciation and amortisation of property, plant and equipment and intangible assets, impairment of property, plant and equipment and investment property, impairment of goodwill and provisions for doubtful debts and for inventory obsolescence, share in profit/(loss) of associates and acquisition effects such as excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and other. The Group’s definition of EBITDA may differ from that of other companies. Information about depreciation and amortisation of property, plant and equipment and intangible assets, interest income and expenses is disclosed in segment information as it is regularly reviewed by the CODM.

Revenue of each segment is mainly represented by sales of electricity, capacity and heat allocated to the reporting segments.

As the CODM analyses leverage of the Group’s subsidiaries and jointly-controlled entities on a regular basis, loans and borrowings are allocated to the reporting segments, excluding inter-segment balances.

Jointly-controlled entities are reviewed by CODM in terms of the Group’s share in their profit/(loss) and loan and borrowings.

“Unallocated and Eliminations” includes elimination of transactions between the reporting segments (“Eliminations”) and management expenses, interest income and expense of the Parent company as well as liabilities on loans and borrowings, obtained by the Parent company or other subsidiaries, which can not be allocated to a specific reporting segment on a reasonable basis (“Unallocated”).

* These sub-segments include LLC INTER RAO - Management of Electric Power Plants (allocated according to the method of management fee distribution).

(in million of RUR)

4. Segment information (continued)

The year ended 31 December 2011

	Supply	*Generation*				*Trading*					*Engineering*			
		The Russian Federation												
	The Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*WGC-3*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Total revenue	**362,616**	**18,777**	**55,653**	**21,024**	**31,094**	**56,525**	**8,587**	**5,965**	**5,506**	**602**	**–**	**3,584**	**(33,689)**	**536,244**
Revenue from external customers	362,445	13,501	36,685	20,766	26,636	52,604	8,587	5,625	5,499	602	–	3,294	–	536,244
Inter-segment revenue	171	5,276	18,968	258	4,458	3,921	–	340	7	–	–	290	(33,689)	–
Operating expenses, including:														
Purchased electricity and capacity	(190,825)	–	(4,741)	(1,443)	(1,768)	(44,396)	(3,178)	(1,031)	(122)	(456)	–	(2,139)	33,413	(216,686)
Transmission fees	(140,323)	–	–	–	–	(6,473)	(349)	(356)	(114)	(69)	–	(400)	–	(148,084)
Fuel expenses	(165)	(9,452)	(33,150)	(9,695)	(18,828)	–	(1,139)	(1,603)	(3,322)	–	–	–	115	(77,239)
Share in profit/(loss) of jointly-controlled entities	(7)	–	1,711	–	–	–	–	–	–	1,190	(3)	(60)	–	2,831
EBITDA	**16,907**	**5,847**	**8,934**	**1,633**	**1,593**	**5,316**	**1,641**	**1,211**	**1,127**	**1,238**	**(5)**	**1,192**	**(4,977)**	**41,657**
Depreciation and amortization	(934)	(3,446)	(2,292)	(1,157)	(3,785)	(10)	(437)	(389)	(406)	(1)	–	(132)	(27)	(13,016)
Interest income	564	4,521	917	1	1,556	26	45	35	–	–	–	446	(240)	7,871
Interest expenses	(51)	(911)	(301)	(157)	(13)	(52)	(428)	(284)	(192)	–	–	(684)	(151)	(3,224)

(in million of RUR)

4. Segment information (continued)

The year ended 31 December 2010 (restated)

	Supply	*Generation*			*Trading*					*Engineering*			
		The Russian Federation											
	The Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Total revenue	**334,607**	**12,595**	**49,133**	**19,323**	**46,302**	**8,132**	**4,885**	**6,028**	**530**	**–**	**1,774**	**(18,923)**	**464,386**
Revenue from external customers	334,028	10,771	35,848	19,047	43,542	8,131	4,734	6,031	530	–	1,724	–	464,386
Inter-segment revenue	579	1,824	13,285	276	2,760	1	151	(3)	–	–	50	(18,923)	–
Operating expenses, including:													
Purchased electricity and capacity	(186,751)	–	(5,428)	(892)	(33,033)	(2,468)	(1,104)	(576)	(390)	–	(1,437)	18,837	(213,242)
Transmission fees	(117,431)	–	–	–	(4,800)	(251)	(280)	(80)	(58)	–	(219)	–	(123,119)
Fuel expenses	(498)	(5,872)	(27,295)	(8,997)	–	(639)	(718)	(3,644)	–	–	–	–	(47,663)
Share in profit/(loss) of jointly-controlled entities	–	–	256	–	–	–	–	–	761	147	4	–	1,168
EBITDA	**12,338**	**3,605**	**6,827**	**1,860**	**7,011**	**2,068**	**1,552**	**882**	**804**	**147**	**841**	**(4,307)**	**33,628**
Depreciation and amortization	(864)	(2,183)	(2,152)	(1,161)	(7)	(389)	(235)	(363)	(2)	–	(92)	–	(7,448)
Interest income	308	–	85	–	5	(162)	33	–	–	–	595	(340)	524
Interest expenses	(237)	(367)	(768)	(215)	(33)	(422)	(290)	(133)	(3)	–	(968)	(357)	(3,793)

(in million of RUR)

4. Segment information (continued)

As at 31 December 2011

	Supply	*Generation*				*Trading*					*Engineering*			
		The Russian Federation												
	The Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*WGC-3*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Loans and borrowings, including	**(709)**	**(15,789)**	**–**	**(5,362)**	**–**	**(629)**	**(3,478)**	**(1,677)**	**–**	**(454)**	**(218)**	**(1,180)**	**(19,148)**	**(48,644)**
Share in debts of jointly-controlled entities	–	–	–	–	–	–	–	–	–	(454)	(218)	–	–	(672)

As at 31 December 2010 (restated)

	Supply	*Generation*			*Trading*					*Engineering*			
		The Russian Federation											
	The Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*The Russian Federation*	*Other*	*Unallocated and eliminations*	*Total*
Loans and borrowings, including	**(1,433)**	**(3,388)**	**(7,222)**	**(2,638)**	**(607)**	**(3,869)**	**(704)**	**–**	**(470)**	**(68)**	**(101)**	**(18,667)**	**(39,167)**
Share in debts of jointly-controlled entities	–	–	–	–	–	–	–	–	(470)	(68)	(95)	–	(633)

As at 1 January 2010 (restated)

	Supply	*Generation*			*Trading*							
		The Russian Federation										
	The Russian Federation	*Generation Parent*	*OGK-1*	*TGK-11*	*The Russian Federation and Europe*	*Armenia*	*Georgia*	*Moldova*	*Kazakhstan*	*Other*	*Unallocated and eliminations*	*Total*
Loans and borrowings, including	**(2,496)**	**(2,841)**	**(11,026)**	**(3,124)**	**–**	**(2,741)**	**(1,032)**	**(328)**	**(732)**	**(5)**	**(22,476)**	**(46,801)**
Share in debts of jointly-controlled entities	–	–	–	–	–	–	–	–	(732)	–	–	(732)

(in million of RUR)

4. Segment information (continued)

The Reconciliation between EBITDA of the reporting segments and Net profit for the reporting period per Consolidated Statement of Comprehensive Income is represented below:

	For the year ended 31 December 2011	*For the year ended 31 December 2010 (restated)*
EBITDA per reportable segments	**41,657**	**33,628**
Depreciation and amortization of property, plant and equipment, investment property and intangible assets	(13,016)	(7,448)
Interest income	7,871	524
Interest expenses	(3,224)	(3,793)
Put and Call option agreements	(10,826)	(1,429)
Foreign currency exchange gain/(loss), net	151	(423)
Other finance income	711	397
Provisions (charge)/release, including:	(30,274)	4,173
impairment of intangible assets	*(31)*	–
impairment of PP&E (charge)/release	*(3,758)*	*7,483*
release of provision for impairment of investment property	*93*	*(171)*
impairment of available for sale investments	*(21,130)*	*(288)*
impairment of held for sale investments	*(1,980)*	–
other provisions (charge)/release	*199*	*(748)*
impairment of receivables	*(3,624)*	*(2,103)*
impairment of Goodwill	*(43)*	–
Loss from disposal of controlling interest	(19)	–
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net	44,652	43
Share of profit in associates	14,141	8
Income tax expense	(10,367)	(7,041)
Profit for the period per Consolidated Statement of Comprehensive Income	**41,457**	**18,639**

The reconciliation between the Loans and borrowings for the reporting segments and Loans and borrowings for the reporting period per Consolidated Statement of Financial Position is represented below:

	As at 31 December 2011	*As at 31 December 2010 (restated)*	*As at 1 January 2010 (restated)*
Loans and borrowings for reportable segments	**(48,644)**	**(39,167)**	**(46,801)**
Less:			
Share in debts of jointly-controlled entities	672	633	732
Loans and borrowings per Consolidated Statement of Financial Position	**(47,972)**	**(38,534)**	**(46,069)**

Information about geographical areas

The Management Board also considers revenue of the Group entities generated in their countries of jurisdiction and abroad as well as non-current assets (property, plant and equipment, investment property, investments in associates and jointly controlled entities and intangible assets, including goodwill) based on location of assets.

(in million of RUR)

4. Segment information (continued)

Information about geographical areas (continued)

	For the year ended 31 December 2011			*For the year ended 31 December 2010 (restated)*		
	Revenue in the Group entity's jurisdiction[1]	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***	***Revenue in the Group entity's jurisdiction***	***Revenue in countries other than Group entity's jurisdiction***	***Total revenue based on location of customers***
The Russian Federation	470,799	100	**470,899**	411,546	326	**411,872**
Finland	15,147	3,861	**19,008**	11,972	8,975	**20,947**
Lithuania	11,320	–	**11,320**	7,407	–	**7,407**
Armenia	8,264	–	**8,264**	7,964	–	**7,964**
Georgia	5,625	764	**6,389**	4,734	403	**5,137**
Belarus	–	5,553	**5,553**	–	47	**47**
Moldova (incl. Transdniestria Republic)	330	4,366	**4,696**	381	5,089	**5,470**
Latvia	–	2,978	**2,978**	–	1,346	**1,346**
Kazakhstan	751	2,381	**3,132**	432	1,256	**1,688**
China	–	1,641	**1,641**	–	1,147	**1,147**
Romania	–	802	**802**	–	560	**560**
Mongolia	–	498	**498**	–	373	**373**
Turkey	342	–	**342**	235	–	**235**
Other	–	722	**722**	–	193	**193**
Total	**512,578**	**23,666**	**536,244**	**444,671**	**19,715**	**464,386**

	Total non-current assets based on location of assets[2]		
	As at 31 December 2011	***As at 31 December 2010 (restated)***	***As at 1 January 2010 (restated)***
The Russian Federation	257,112	125,478	108,010
Armenia	8,796	8,509	6,094
Georgia	8,213	3,573	3,378
Moldova (incl. Transdniestria Republic)	5,810	4,949	4,724
Kazakhstan	30	36	39
Lithuania	1,498	25	30
Finland	8	9	4
Turkey	3	4	5
Other	115	4	617
Total	**281,585**	**142,587**	**122,901**

1 Revenues are attributable to countries on the basis of the customer's location.
2 Total non-current assets based on location of assets excludes deferred tax assets and other non-current assets.

(in million of RUR)

5. Acquisitions and disposals

During the years 2010 and 2011 the Group has made several acquisitions and disposals. Details are presented below:

Acquisition of JSC WGC-3

As a result of placing additional shares in the 1st half 2011, at the end of March 2011 JSC INTER RAO UES acquired 85.47% of the ordinary voting shares issued (excluding treasury shares) of JSC WGC-3 from third parties, an electricity and heat power generating company operating in several regions of the Russian Federation. The total consideration amounted RUR 52,108 million represented by the fair value of 1,361,626,945,728 ordinary shares issued by JSC INTER RAO UES using the stock quotations at the date of the transfer.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on IFRS financial statements of the acquired entity for 1st quarter 2011 year.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	75,629
Intangible assets	77
Other non-current assets	3,207
Inventories	2,633
Accounts receivable	7,847
Income tax prepaid	137
Cash and cash equivalents	13,441
Other current assets	24,877
Deferred tax liabilities	(7,894)
Other non-current liabilities	(771)
Accounts payable and accrued charges	(4,257)
Taxes payable	(2,106)
Fair value of net assets acquired	**112,820**
Less: Non-controlling interest (14.53% of the Group's WGC-3 net assets)	(16,393)
Fair value of acquired interest in net assets	**96,427**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(44,319)
Total consideration	**52,108**

Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to RUR 44,319 million was recognised directly in the consolidated statement of comprehensive income for the year 2011.

JSC WGC-3 contributed revenues of RUR 31,094 million and a net loss of RUR 1,107 million to the Group for the period from the date of acquisition to 31 December 2011. Had the acquisition occurred as at 1 January 2011, the estimated contribution to the Group revenue would have been RUR 43,554 million, and the estimated contribution to the result for the year 2011 would have been a net profit of RUR 47 million.

Certain restrictions issued by Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC WGC-3 are disclosed in Note 31. For information regarding shares transferred for trust management see Note 35.

Acquisition of JSC Khramesi I and JSC Khramesi II

On 12 April 2011 the Group acquired a 100.00% interest in JSC Khramesi I and JSC Khramesi II, an electricity power generating companies operating in Georgia. The total cash consideration paid by the Group was RUR 2,909 million (USD 104 million), including cash consideration paid in the amount of RUR 831 million (USD 32 million) net of cash acquired in the amount of RUR 141 million (USD 5 million) and deferred consideration in the amount of RUR 2,219 (USD 72 million) million which was fully paid in the 4th quarter 2011.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on IFRS financial statements of the acquired entities as at 31 March 2011.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Khramesi I and JSC Khramesi II (continued)

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	2,866
Intangible assets	9
Inventories	17
Accounts receivable	130
Income tax prepaid	2
Cash and cash equivalents	141
Other current assets	2
Non-current loans and borrowings	(409)
Deferred tax liabilities	(320)
Current loans and borrowings	(164)
Accounts payable and accrued charges	(40)
Taxes payable	(25)
Fair value of net assets acquired	**2,209**
Goodwill arising from the acquisition (see Note 8)	700
Total consideration	**2,909**

Goodwill arising on the acquisition of JSC Khramesi I and JSC Khramesi II amounted to RUR 700 million. The key reason of the acquisition was the Group's further expansion of generating activities on the territory of Georgia.

JSC Khramesi I and JSC Khramesi II contributed revenues of RUR 262 million and a net loss of RUR 332 million to the Group for the period from the date of acquisition to 31 December 2011. Had the acquisition occurred as at 1 January 2011, the estimated contribution to the Group revenue would have been RUR 366 million, and the estimated contribution to the result for the year ended 31 December 2011 would have been a net profit of RUR 43 million.

Acquisition of Vydmantai Wind Park UAB

On 15 July 2011 the Group acquired a 51.00% interest in an electricity power wind-generating company operating in Lithuania. The total consideration paid by the Group was RUR 892 million (EUR 22 million). Fair value of assets and liabilities was determined by an independent appraiser.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	998
Intangible assets	460
Accounts receivable	44
Cash and cash equivalents	55
Other current assets	48
Non-current loans and borrowings	(663)
Deferred tax liability	(92)
Current loans and borrowings	(29)
Accounts payable and accrued charges	(31)
Taxes payable	(2)
Fair value of net assets acquired	**788**
Less: Non-controlling interest (49%)	(386)
Fair value of acquired interest in net assets	**402**
Goodwill arising from the acquisition (see Note 8)	53
Total consideration	**892**
Less: Non-controlling interest (49%)	(437)
Consideration paid for acquired interest in net assets	**455**

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of Vydmantai Wind Park UAB (continued)

Goodwill arising on the acquisition of Vydmantai Wind Park UAB amounted to RUR 53 million. The key reason of the acquisition was to enhance the trading part with electricity generating assets in Lietuva. The park is equipped by the fifteen turbines E70 type produced by Enercon, 2MW each. The acquisition was financed by cash and loan from Swedbank AB. The licence held by Vyndmantai Wind Park UAB enables to sell the electricity produced by the wind park with the guaranteed tariff of 300 LTL per MWh (RUR 3,621) which is above the current market price. This tariff is guaranteed by law and is valid throughout the end of 2020. The licence is amortised till the end of 2020. The goodwill recognition is justified by the discounted cash-flow model that evidences that project cash inflows will cover all the assets acquired including the goodwill during the reasonable payback period. It's also expected the additional synergies from the combining of trading and generating units, i.e. the UAB INTER RAO Lietuva trading experience and expertise will enhance the profitability of generating capacities.

Vyndmantai Wind Park UAB contributed revenues of RUR 99 million and a net income of RUR 41 million to the Group for the period from the date of acquisition to 31 December 2011. Had the acquisition occurred as at 1 January 2011, the estimated contribution to the Group revenue would have been RUR 250 million, and the estimated contribution to the result for the year ended 31 December 2011 would have been a net income of RUR 81 million.

Acquisition of JSC OGK-1

In December 2010 net assets of JSC OGK-1 were increased by RUR 23,302 million due to the additional issue of 20,809 million ordinary shares made by this company. On 21 December 2010 the Group acquired 18,998 million shares or a 29.03% interest in JSC OGK-1 for the total consideration of RUR 21,278 million.

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired additional 45.14% of the ordinary shares of JSC OGK-1 from entities under common control and 0.98% from other parties. The acquisition of 45.14% was accounted for using the pooling-of-interests method. The acquisition of 0.98% was accounted as acquisition of non-controlling interest in Additional issue of shares in the consolidated statement of changes in equity and amounted to RUR 634 million.

As at 31 December 2011 the Group has 75.15% (as at 31 December 2010: 74.17%; as at 1 January 2010: 66.17%) of the ordinary shares of JSC OGK-1 (for information regarding shares transferred for trust management see Note 35).

Acquisition of JSC TGK-11

On 11 November 2009 the Group acquired a 29.9% interest in JSC TGK-11, an electricity and heat power generating company operating in Western Siberia region of the Russian Federation. The total consideration paid by the Group was RUR 1,685.5 million.

In February 2010 the Parent company purchased 2.79% of the ordinary shares of JSC TGK-11 for a total consideration of RUR 127 million.

In March 2010 the Group made a mandatory offer to other shareholders of JSC TGK-11 to purchase 345 billion of shares of JSC TGK-11 (67.31%) at a price of RUR 0.0167 per share. As a result of the mandatory offer 1,393,875 thousand or 0.27% of shares of JSC TGK-11 were purchased by the Group for a total consideration of RUR 25 million in 2010.

In June 2010 the Group purchased 0.003% of the ordinary shares of JSC TGK-11 for a total consideration of RUR 0.3 million.

In January – June 2011 the Group additionally purchased 0.40% of the ordinary shares of JSC TGK-11 for a total consideration of RUR 33 million.

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 34.35% of the ordinary shares of JSC TGK-11 from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 67.71% (as at 31 December 2010: 67.31%; as at 1 January 2010: 64.25%) of the ordinary shares of JSC TGK-11.

Acquisition of JSC Saint-Petersburg Sale Company

On 29 September 2010 the Group purchased 24.99% of ordinary shares and 37.03% of preference shares (26.75% of total shares) of JSC Saint-Petersburg Sale Company (JSC PSC), an electricity trading company operating in Saint Petersburg, the Russian Federation. The purchased preference shares are non-voting.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Saint-Petersburg Sale Company (continued)

The total consideration was RUR 1,472 million. The consideration included cash payment in the amount of RUR 200 million made in September 2010 and deferred consideration in the amount of RUR 1,272 million to be paid in April 2011 (see Note 16). Due to prolongation of the final settlement till the 1st quarter 2012 according to the terms of the purchase agreement the Group has to pay additional fee in the amount of RUR 46 million.

Cash outflow on the acquisition in 2010 amounted to RUR 200 million. Cash outflow on the acquisition in 2011 amounted to RUR 178 million. The deferred consideration in the amount of RUR 1,140 million (as at 31 December 2010: 1,272 million) was recognised as the short-term payable in the consolidated statement of financial position. The key reason of the acquisition was the Group's further expansion of trading activities on the wholesale electricity market.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 67.10% of the ordinary shares and 28.98% of preference shares (61.52% of total shares) of JSC Saint-Petersburg Sale Company (JSC PSC) (acquired from entities under common control). This acquisition was accounted for using the pooling-of-interests method.

In May 2011 the Group additionally purchased 4.98% of the ordinary shares (4.25% of total shares) of JSC PSC for a total consideration of RUR 201 million.

As at 31 December 2011 the Group has 92.52% (as at 31 December 2010: 88.27%; as at 1 January 2010: 61.52%) of the total shares of JSC PSC.

Certain restrictions imposed by the Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC PSC are disclosed in Note 31.

Acquisition of JSC Mosenergosbyt

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 50.92% of the ordinary shares of JSC Mosenergosbyt from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

In 1st half 2011 one of the subsidiaries of JSC Mosenergosbyt additionally acquired 2.87% of the ordinary shares of JSC Korolevskaya network for a total consideration of RUR 10 million.

As at 31 December 2011 the Group has 50.92% (as at 31 December 2010: 50.92%; as at 1 January 2010: 50.92%) of the ordinary shares of JSC Mosenergosbyt.

Certain restrictions issued by Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC Mosenergosbyt are disclosed in Note 31.

Acquisition of JSC Altayenergosbyt

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 100% of the ordinary shares of JSC Altayenergosbyt from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 100% (as at 31 December 2010: 100%; as at 1 January 2010: 100%) of the ordinary shares of JSC Altayenergosbyt.

Acquisition of LLC RN-Energo

As a result of placing additional shares in 2011, JSC INTER RAO UES acquired 100% of the ordinary shares of LLC RN-Energo from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 100.00% (as at 31 December 2010: 100%; as at 1 January 2010: 100%) of the ordinary shares of LLC RN-Energo.

Acquisition of JSC United Energy Retailing Company

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 100% of the ordinary shares of JSC United Energy Retailing Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 100.00% (as at 31 December 2010: 100%; as at 1 January 2010: 100%) of the ordinary shares of JSC United Energy Retailing Company.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Tambov Energy Retailing Company

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 67.87% of the ordinary shares or 59.38% of the total shares of JSC Tambov Energy Retailing Company from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 59.38% (as at 31 December 2010: 59.38%; as at 1 January 2010: 49.01%) of the total shares of JSC Tambov Energy Retailing Company.

Acquisition of JSC Saratovenergo

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 74.46% of the ordinary shares or 56.97% of the total shares of JSC Saratovenergo from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 56.97% (as at 31 December 2010: 56.97%; as at 1 January 2010: 49.00%) of the total shares of JSC Saratovenergo.

Certain restrictions issued by the Federal Antimonopoly Service of the Russian Federation upon the acquisition of JSC Saratovenergo are disclosed in Note 31.

Acquisition of JSC Hrazdan Energy Company (RazTES)

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 100% of the ordinary shares of JSC Hrazdan Energy Company (RazTES) from entities under common control. This acquisition was accounted for using the pooling-of-interests method.

As at 31 December 2011 the Group has 100% (as at 31 December 2010: 100%; as at 1 January 2010: 100%) of the ordinary shares of JSC Hrazdan Energy Company (RazTES).

Acquisition of JSC Industrial Energetics

On 29 October 2010 the Group has acquired 75% of JSC Industrial Energetics, an electricity trading company operating in Moscow, the Russian Federation. The key reason of the acquisition was Group's further expansion of trading activities on the wholesale electricity market. The entity was acquired from the third party. The total consideration was RUR 51.1 million. Assets acquired and liabilities assumed of the entity were recognised at their respective fair values. The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Property, plant and equipment	1
Accounts receivable	321
Income tax prepaid	10
Cash and cash equivalents	133
Accounts payable and accrued charges	(424)
Taxes payable	(16)
Fair value of net assets acquired	**25**
Less: Non-controlling interest (25% of JSC Industrial Energetics net assets)	(6)
Contingent dividends to be received for the 4th quarter 2010	75
Fair value of acquired interest in net assets	**94**
Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment	(43)
Total consideration	**51**

As at the date of acquisition the Group recognised short-term payable in the amount of RUR 51 million. The total consideration was paid by the Group in June 2011. Excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment amounting to RUR 43 million was recognised directly in the consolidated statement of comprehensive income for the year 2010.

(in million of RUR)

5. Acquisitions and disposals (continued)

Acquisition of JSC Industrial Energetics (continued)

JSC Industrial Energetics contributed revenues of RUR 1,590 million and a net profit of RUR 60 million to the Group for the period from the date of acquisition to 31 December 2010. If the acquisition had occurred as at 1 January 2010, the estimated contribution to the Group revenue would have been RUR 8,555 million, and the estimated contribution to the result for the year ended 31 December 2010 would have been a net profit of RUR 272 million.

On 5 August 2011, the Group sold non-controlling interest (24%) in JSC Industrial Energetics for RUR 28 million.

As at 31 December 2011 the Group has 51.00% (as at 31 December 2010: 75.00%) of the ordinary shares of JSC Industrial Energetics.

Acquisition of Quartz Group

On 4 July 2010 the Group acquired a 50.01% interest in Quartz Group, one of the leaders in the Russian engineering market specialising in construction of new turn key power sites and renovation / maintenance of existing energy sector facilities and infrastructure. The total consideration paid by the Group was RUR 312 million. The ownership of Quartz Group represents an investment in the jointly controlled entity.

Fair value of property, plant and equipment was determined by an independent appraiser. Fair value of other assets and liabilities was determined by Group management based on audited IFRS financial statements of the acquired group.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Fair value of entities' net assets	**365**
Fair value of acquired interest in net assets	**183**
Goodwill	129
Total purchase consideration	**312**

Cash outflow on the acquisition amounted to RUR 312 million. The goodwill arising from the acquired share in the fair value of the identifiable assets and liabilities amounting to RUR 129 million was recognised in the carrying value of investment in associates and jointly controlled entities in the consolidated statement of financial position. The key reason of the acquisition was Group's expansion of engineering activities.

Acquisition of INTER RAO LED System Group

On 19 April 2011 the Group acquired a 35.17% interest in INTER RAO LED Systems Group, one of the leaders in the Russian LED Systems market. At the date of acquisition the investment was classified as available-for-sale financial asset in the amount of RUR 600 million. On 19 August 2011 the Group entered into joint control over the Company with other participants and the investment was reclassified to investment in jointly controlled entity.

Fair value of assets and liabilities were determined by an independent appraiser.

The fair values of assets and liabilities arising from the acquisition are as follows (RUR million):

	Fair values
Fair value of entities' net assets	**1,939**
Fair value of acquired interest in net assets	**524**
Goodwill	76
Total purchase consideration	**600**

Cash outflow on the acquisition amounted to RUR 600 million. The goodwill arising from the acquired share in the fair value of the identifiable assets and liabilities amounting to RUR 76 million was recognised in the carrying value of investment in associates and jointly controlled entities in the consolidated statement of financial position. The key reason of the acquisition was Group's decision to develop of LED Systems market of the Russian Federation.

(in million of RUR)

5. Acquisitions and disposals (continued)

Disposal of controlling interest

On 7 February 2011, the Group sold its 90% share in CJSC International Power Corporation. Cash inflow on the disposal amounted to RUR 126 million included cash consideration of RUR 136 million net of cash and cash equivalents of the entity at the date of disposal in the amount of RUR 10 million. The gain on disposal amounting to RUR 258 million was recognised in the consolidated statement of comprehensive income within operating expenses.

On 6 August 2011, the Group has sold its 98% share in LLP Nedra Kazakhstana. The loss on its disposal amounting to RUR 3 million was recognised in the consolidated statement of comprehensive income within operating expenses.

On 12 August 2011, the Group has sold its 100% share in LLC Sakhalinenergoneft. Cash inflow on the disposal amounted to RUR 0.01 million. The gain on disposal amounting to RUR 49 million was recognised in the consolidated statement of comprehensive income within operating expenses.

On 28 October 2011, the Group has sold 85.47% share in LLC Hockey Club CSKA. Decrease in cash and cash equivalents from the disposal amounted to RUR 149 million included cash and cash equivalents of the entity at the date of disposal in the amount of RUR 149 million less cash consideration received in the amount of RUR 0.01 million. The loss on disposal amounting to RUR 174 million was recognised in the consolidated statement of comprehensive income within operating expenses.

During the second half of the year 2011 the Group has also disposed a number of insignificant subsidiaries. The loss on disposal amounting to RUR 149 million was recognised in the consolidated statement of comprehensive income within operating expenses.

Disposal and acquisition of non-controlling interest in JSC Electrolutch

On 24 December 2010 the shareholders meeting approved the additional issue of 2,000 ordinary shares of JSC Electrolutch with nominal value of RUR 1 each. On 1 February 2011 the Board of Directors of the Company approved the issue cost of the additional ordinary shares in the amount of RUR 128,288 per share in favour of the third parties, cash proceeds equalled to RUR 255 million. On 16 December 2011 the Group acquired from the third party 2,001 ordinary shares of JSC Electrolutch in the amount of RUR 132 thousand per share, cash outflow equal RUR 264 million. Due to the purchase of additional shares in February 2011 the share of the Parent Company in the share capital JSC Electrolutch increased from 97.78% to 98.03% of ordinary shares.

Establishment of the subsidiaries

On 11 November 2011 the Group has established a 75% subsidiary Inter Green Renewables and Trading AB for the purposes of electricity trading on the Swedish market. As a result the Group has recognised the non-controlling interest in the amount of RUR 13 million.

On 16 November 2011 The Group has established a 100% subsidiary LLC Khramesi – 3 for the purposes of construction of hydroelectric plants in accordance with the capital commitments of the Group in Georgia (see Note 31).

(in million of RUR)

6. Property, plant and equipment

	Land and buildings	*Constructions*	*Plant and equipment*	*Other*	*Construction in progress*	*Total*
Cost						
Balance at 1 January 2010 (restated)	**33,289**	**32,735**	**72,653**	**4,427**	**25,685**	**168,789**
Additions	55	65	47	24	16,305	**16,496**
Transfers from investment property	988	–	–	–	899	**1,887**
Disposals	(21)	(144)	(568)	(97)	(400)	**(1,230)**
Transfers	2,231	3,367	6,991	504	(13,093)	**–**
Translation difference	201	777	637	108	112	**1,835**
Balance at 31 December 2010 (restated)	**36,743**	**36,800**	**79,760**	**4,966**	**29,508**	**187,777**
Including PPE under finance lease	44	449	3,279	645	–	**4,417**
Balance at 1 January 2011 (restated)	**36,743**	**36,800**	**79,760**	**4,966**	**29,508**	**187,777**
Reclassification	(1,670)	665	2,056	(1,051)	–	**–**
Additions	68	432	682	28	44,641	**45,851**
Disposals	(76)	(101)	(1,291)	(175)	(556)	**(2,199)**
Transfers	2,575	4,006	17,240	405	(24,226)	**–**
Transfer to/(from) Other Balance Accounts	–	(23)	–	–	(281)	**(304)**
Acquisition of controlling interest	20,455	13,687	19,459	460	25,433	**79,494**
Disposal of controlling interest	(109)	(539)	(435)	(55)	(21)	**(1,159)**
Translation difference	368	544	451	55	(11)	**1,407**
Balance at 31 December 2011	**58,354**	**55,471**	**117,922**	**4,633**	**74,487**	**310,867**
Including PPE under finance lease	152	320	4,124	615	–	**5,211**
Depreciation and impairment losses						
Balance at 1 January 2010 (restated)	**(11,066)**	**(17,275)**	**(32,566)**	**(2,315)**	**(5,101)**	**(68,323)**
Depreciation charge	(684)	(1,142)	(4,878)	(341)	–	**(7,045)**
Impairment loss charge/release	817	735	2,273	2	3,656	**7,483**
Transfers from investment property	(245)	–	–	–	(118)	**(363)**
Disposals	15	91	477	63	1	**647**
Transfers	(18)	(88)	(53)	–	159	**–**
Translation difference	(174)	(697)	(500)	(93)	(7)	**(1,471)**
Balance at 31 December 2010 (restated)	**(11,355)**	**(18,376)**	**(35,247)**	**(2,684)**	**(1,410)**	**(69,072)**
Including PPE under finance lease	–	(117)	(1,233)	(33)	–	**(1,383)**
Balance at 1 January 2011 (restated)	**(11,355)**	**(18,376)**	**(35,247)**	**(2,684)**	**(1,410)**	**(69,072)**
Reclassification	1,720	(651)	(2,121)	1,052	–	**–**
Depreciation charge	(1,277)	(2,494)	(8,403)	(329)	–	**(12,503)**
Impairment loss charge	(782)	(1,013)	(2,590)	(82)	(135)	**(4,602)**
Impairment loss release	267	105	180	5	287	**844**
Disposals	24	52	1,095	91	–	**1,262**
Transfers	(5)	(43)	(14)	–	62	**–**
Disposal of controlling interest	106	477	374	47	15	**1,019**
Translation difference	(116)	(42)	(127)	(8)	3	**(290)**
Balance at 31 December 2011	**(11,418)**	**(21,985)**	**(46,853)**	**(1,908)**	**(1,178)**	**(83,342)**
Including PPE under finance lease	(3)	(259)	(2,252)	(43)	–	**(2,557)**
Net book value						
At 1 January 2010 (restated)	**22,223**	**15,460**	**40,087**	**2,112**	**20,584**	**100,466**
At 31 December 2010 (restated)	**25,388**	**18,424**	**44,513**	**2,282**	**28,098**	**118,705**
At 31 December 2011	**46,936**	**33,486**	**71,069**	**2,725**	**73,309**	**227,525**

The category Land and buildings includes land (see Note 2(g)) in the amount of RUR 513 million (31 December 2010: RUR 377 million, 1 January 2010: RUR 291 million).

(in million of RUR)

6. Property, plant and equipment (continued)

Construction in progress is represented by the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. Such advances amounted to RUR 14,002 million as at 31 December 2011 (31 December 2010: RUR 6,089 million). Additions of constructions in progress include RUR 13,148 million related to the completion of second power generation block of Kaliningradskaya TEC-2 transferred from other current assets during the year ended 31 December 2011 (see details in Note 20 (v)).

Interest capitalized during the year ended 31 December 2011 amounted to RUR 241 million (year ended 31 December 2010: RUR 408 million).

(a) Impairment

In management's opinion, the existing impairment provision represents the best estimate of the impact of impairment as a result of the current economic conditions in the Russian Federation and other countries in which the Group operates and expectations about future operating activities.

The Group performed the impairment tests of property, plant and equipment within the cash generating units - the material impairment charge and release (included in the Consolidated statement of comprehensive income in the line "Operating expenses") represented below by cash generating units:

Sochinskaya TPS (separate power plant included into the operating segment "Generation in the Russian Federation")
In 2010 the impairment in the amount RUR 864 million was recovered, mainly due to a special status of must-run generator was obtained, with full coverage of costs incurred. For 2012 this status was not confirmed, therefore in 2011 after recalculation of the recoverable amount of property, plant and equipment – the impairment in the amount of RUR 4,143 million was recognized. The Group is committed to operate Sochinskaya TPS. The recoverable amount was estimated as value in use using the discount rate of 13.5% as at 31 December 2011 (as at 31 December 2010: 14.6%).

Ivanovo Thermal-gas Plant (separate power plant included into the operating segment "Generation in the Russian Federation")
In 2010 the JSC Ispytatelniy Stend Ivanovskoy GRES was included in the cash generating unit "Ivanovo Thermal-gas Plant", due to the transfer of all equipment to "Ivanovo Thermal-gas Plant" for the purpose of power equipment testing.

In 2010 the impairment in the amount RUR 6,572 million was recovered, mainly due to significant increase of actual tariff for new capacity in comparison to the estimation in previous reporting period according to the results of the impairment test. In 2011 the residual impairment in the amount of RUR 166 million was recovered for the same reasons. The recoverable amount was estimated as value in use using the discount rate of 13.5% as at 31 December 2011 (as at 31 December 2010: 14.6%).

Cherepetskaya GRES (separate power plant included into the operating segment "Generation in the Russian Federation")
In 2011 due to reduction of the electricity and capacity tariffs forecasts, compared to previous estimates, the recoverable amount of Cherepetskaya GRES property, plant and equipment decreased. Therefore, the impairment in the amount RUR 441 million was recognized. The Group is committed to operate Cherepetskaya GRES. The recoverable amount was estimated as value in use using the discount rate of 14.1% as at 31 December 2011.

JSC Electrolutch (the complex of office buildings included into the operating segment "Other")
Due to the growth in market rent prices the recoverable amount of an asset was determined (see details in Note 7), consequently as a result of this analysis, the impairment in the amount RUR 39 million was recovered in 2010, and in the amount of RUR 396 million was recovered in 2011. The recoverable amount was estimated as value in use using the discount rate of 12.9% as at 31 December 2011 (as at 31 December 2010: 15.2%).

Moldavskaya GRES (separate power plant included into the operating segment "Moldova")
In 2010 the impairment in the amount RUR 88 million was recovered, mainly due to the changes in macroeconomic conditions, which caused the discount rate to decrease. In 2011 the impairment in the amount of RUR 281 million was recovered with the main reasons being decrease in the discount rate and increase in electricity sales tariff. The recoverable amount as value in use was estimated using the discount rate of 15.4% as at 31 December 2011 (as at 31 December 2010: 17.6%).

(b) Pledge

Properties as at 31 December 2011 with a carrying amount of RUR 33 million (31 December 2010: RUR 25 million, 1 January 2010: RUR 22 million) are pledged by CJSC Elektricheskiye seti Armenii as collateral for several of its loans.

(in million of RUR)

7. Investment properties

The movement of investment properties for the reporting period is as follows:

At 1 January 2010 (restated)	**2,447**
Additions	362
Transfer to fixed assets	(1,524)
Impairment charge	(171)
Depreciation charge	(20)
At 31 December 2010 (restated)	**1,094**
At 1 January 2011 (restated)	**1,094**
Additions	43
Impairment loss recovery	93
Depreciation charge	(19)
At 31 December 2011	**1,211**

The investment properties represent a complex of three office buildings located in Moscow in various stages of completion which will be rented out once they are fully constructed. One of these buildings is to be partially occupied by the Group entities and partially rented out. The part which is for the use of the Group is recognized as property, plant and equipment, the part which will be rented out is accounted for as an investment property.

(a) Carrying value

Investment properties with carrying value of RUR 1,188 million represent two buildings in Moscow fully completed and in use as at 31 December 2011 (as at 31 December 2010: RUR 1,074 million and 1 January 2010: RUR 1,090 million respectively). As at 1 January 2010investment properties with a carrying value of RUR 1,107 million represent two buildings in the complex partly completed, which is planned to be rented out, these buildings were transferred to fixed assets as at 31 December 2010. Investment properties with a carrying value of RUR 23 million as at 31 December 2011 (as at 31 December 2010: RUR 20 million and 1 January 2010: RUR 250 million respectively) represent project of construction of office and related facilities which were classified as investment property.

As at 31 December 2011 the fair market value of the investment properties approximated its carrying value. The fair market value was determined by using discounted cash flows approach using the assumptions as described below in Note 7 (b).

(b) Impairment

31 December 2011

As at 31 December 2011 the Group performed an assessment of the recoverable amount of the investment properties of JSC Electrolutch, using the key assumptions which were used in the profitability test as of 31 December 2010, except for the following:

- The initial base rental fee is USD 579-1,035 per square meter with subsequent growth of 5%-10% per annum (2010: USD 560-840 per square meter with subsequent growth of 5%-8% per annum);
- The discount rate used for construction period was assessed at the level of 15.2%; for the period of operations the discount rate of 11.7% was applied (2010: 15,2%);
- The capitalization rate used for the calculation of the terminal value was 9% (2010: 9.5%).

Based on the applied assumptions, the recoverable amount of each building as a separate cash generating unit exceeded respective carrying values.

As a result of the analysis as at 31 December 2011 the Group identified basis to recover impairment charge of previous periods (as at 31 December 2010: basis of additional charge of impairment).

Total rental income received from the investment property for the year 2011 was RUR 167 million (for the year 2010: RUR 159 million). The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	At 31 December 2011	***At 31 December 2010***
Not later than 1 year	85	151
Later than 1 year and not later than 5 years	263	301
Later than 5 years	45	72
Total operating lease payments receivable	**393**	**524**

(in million of RUR)

8. Intangible assets

	Goodwill	*Software*	*Other*	*Total*
Cost				
Balance at 1 January 2010 (restated)	**1,883**	**1,252**	**1,029**	**4,164**
Reclassification	–	(1)	–	(1)
Additions	79	329	59	467
Disposals	–	(113)	–	(113)
Translation difference	(104)	4	–	(100)
Balance at 31 December 2010 (restated)	**1,858**	**1,471**	**1,088**	**4,417**
Balance at 1 January 2011 (restated)	**1,858**	**1,471**	**1,088**	**4,417**
Reclassification	–	34	(34)	–
Acquisition of controlling interest	753	104	496	1,353
Additions	–	370	348	718
Disposals	–	(130)	(17)	(147)
Disposal of controlling interest	(6)	(1)	(8)	(15)
Translation difference	151	14	1	166
Balance at 31 December 2011	**2,756**	**1,862**	**1,874**	**6,492**
Amortisation and impairment				
Balance at 1 January 2010 (restated)	**(344)**	**(503)**	**(36)**	**(883)**
Amortisation charge	–	(257)	(126)	(383)
Disposals	–	111	–	111
Translation difference	20	(2)	–	18
Balance at 31 December 2010 (restated)	**(324)**	**(651)**	**(162)**	**(1,137)**
Balance at 1 January 2011 (restated)	**(324)**	**(651)**	**(162)**	**(1,137)**
Reclassification	–	(6)	6	–
Amortisation charge	–	(314)	(180)	(494)
Impairment losses	(43)	–	(31)	(74)
Acquisition of controlling interest	–	(50)	(4)	(54)
Disposals	–	71	13	84
Disposal of controlling interest	6	–	3	9
Translation difference	(9)	(3)	–	(12)
Balance at 31 December 2011	**(370)**	**(953)**	**(355)**	**(1,678)**
Net book value				
At 1 January 2010 (restated)	**1,539**	**749**	**993**	**3,281**
At 31 December 2010 (restated)	**1,534**	**820**	**926**	**3,280**
At 31 December 2011	**2,386**	**909**	**1,519**	**4,814**

The amortisation charge is included in operating expenses in the consolidated statement of comprehensive income.

Impairment of goodwill

31 December 2010

UAB INTER RAO Lietuva

The net book value of goodwill as at 31 December 2010 includes carrying value of goodwill in the amount of RUR 1,371 million and accumulated impairment of goodwill in the amount of RUR 260 million which arose from the acquisition of UAB INTER RAO Lietuva in 2008.

Capitalised goodwill of RUR 1,371 million recognised on the acquisition of UAB INTER RAO Lietuva was generated as a result of the Group's ability to benefit from synergies available to it because of the Group's position as an exporter of Russian electricity and the strength of UAB INTER RAO Lietuva in selling imported electricity into the Lithuanian electricity market.

As at 31 December 2010 the Group carried out an impairment test on the goodwill related to UAB INTER RAO Lietuva which reveals no indicators of its impairment. For the purpose of impairment testing the goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit.

(in million of RUR)

8. Intangible assets (continued)

31 December 2011

The net book value of goodwill as at 31 December 2011 comprised goodwill which arose:

- on acquisition of UAB INTER RAO Lietuva in 2008 in the amount of RUR 1,148 million (as at 31 December 2010 and 1 January 2010: RUR 1,111 million and RUR 1,195 million, respectively);
- resulted from acquisition of controlling interest in the amount of RUR 380 million (as at 31 December 2010 and 1 January 2010: RUR 423 million and RUR 344 million, respectively) (Note 5);
- on acquisition of JSC Khramesi GES I and JSC Khramesi GES II in the April 2011 in the amount of RUR 700 million (Note 5);
- on acquisition of UAB Vydmantai Wind Park in the September 2011, the amount of RUR 53 million (Note 5).

UAB INTER RAO Lietuva

As at 31 December 2011 the Group carried out an impairment test on the goodwill related to UAB INTER RAO Lietuva. For the purpose of impairment testing the goodwill is allocated to UAB INTER RAO Lietuva as an individual cash-generating unit. The impairment test was based on the following key assumptions:

- UAB INTER RAO Lietuva is carrying out trading operations with electricity, including import deliveries from electricity system of the Russian Federation to the electricity market of the Lithuanian Republic and export deliveries from the electricity market of the Lithuanian Republic to other countries of Baltic region and Republic of Belarus;
- Starting from 2010, the electricity market of the Lithuanian Republic experiences significant changes due to the closure of the Ignalina Nuclear Power Plant with effect from the end of 2009. The Ignalina plant was the main electricity generating facility within Lithuania and the Baltic region, providing up to 70% of electricity generation in that region. The electricity deficit arising due to the closure of Ignalina plant will be covered partially by additional production by the Lithuanian power stations and partially by additional imports to the Lithuanian electricity system from the neighbour systems, mostly from the electricity system of the Russian Federation, which have considerable export potential.

According to electricity demand projections, the demand would increase annually at average rate of 2% and would reach approximately 11.5 GWth by the year 2019, from the current level of approximately 9.8 GWth. It is expected that starting from the year 2010 till the year 2019 the annual volume of electricity imported to Lithuania would grow to 7 GWth, and that 80% of that volume could be covered by deliveries carried out by UAB INTER RAO Lietuva;

- This volume of deliveries is assumed to provide gross margin of 8.3%, as the above mentioned volume allows UAB INTER RAO Lietuva to carry out electricity sales in peak periods, when higher profitability is achieved;
- The discount factor used for the impairment test performed by management was 15.1% (as at 31 December 2010 – 17.9%).

Based on the assumptions described above, management considers that as at 31 December 2011 there are no indicators of its impairment.

JSC Khramesi I and JSC Khramesi II

As at 31 December 2011 the Group carried out an impairment test on the goodwill related to acquisition of JSC Khramesi I and JSC Khramesi II. For the purpose of impairment testing the goodwill is allocated to the both purchased entities: JSC Khramesi I and JSC Khramesi II and as an individual cash-generating unit as well as to new subsidiary LLC Khramesi GES III established for purposes of further expansion of generating activities on the territory of Georgia. The impairment test was based on the following key assumptions:

- Applied WACC discount rate was 15.68% per annum;
- Consolidated revenue of all the entities for the years 2012-2013 is expected to be not lower than RUR 353 million per year; in the year 2014 consolidated revenue will grow to RUR 1,051 million due to increase of electricity generation volume by 100% and a tariff by 100% for JSC Khramesi I and JSC Khramesi II in accordance with additional memorandum signed between the Group and the Government of Georgia in 2011 as the compensation of the Group's investments into expansion of generating capacities in Georgia; in the year 2015 further revenue growth is expected due to commissioning of new generating capacity by LLC Khramesi GES III and will be at the amount of RUR 1,272 million; starting from the year 2016 consolidated revenue is expected to be not lower than RUR 2,926 million as LLC Khramesi GES III will start to operate at full capacity and to export 75% of the produced electricity to Turkey;
- Investment programme to expand generating capacity requires an investment of LLC Khramesi GES III in the amount of RUR 6,860 million during the years 2012-2015;
- As a result of both operating and investing activities it is expected that during the years 2012-2015 it will be a net cash outflow in the amounts of: in 2012 – RUR 371 million, in 2013 – RUR 986 million, in 2014 – RUR 1,445 million, in 2015 – RUR 1,060 million. Starting from the year 2016 the business will generate cash inflow in the amounts of: in 2016 – RUR 992 million, starting from the year 2017 and further – not less than 2,075 RUR million.

(in million of RUR)

8. Intangible assets (continued)

31 December 2011 (continued)

Based on the assumptions described above, management considers that as at 31 December 2011 there are no indicators of its impairment.

Other

Other intangible assets included Status of the guaranteed supplier in the amount of RUR 575 million (with cost RUR 719 million and accumulated amortisation in the amount of RUR 144 million), recognised on the acquisition of a subsidiary by one of the entity, acquired under common control (as at 31 December 2010: cost RUR 719 million, accumulated amortisation RUR 72 million; as at 1 January 2010: cost RUR 719 million). As at 31 December 2011 the remaining useful life is 8 years.

9. Investments in associates and jointly controlled entities

Details of the associates, jointly controlled entities and joint ventures, together with the movements in the carrying values of these entities, are set at below:

	Status	*Country*	*Voting* 31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
NVGRES Holding Limited	Jointly controlled entity	The Russian Federation	75.00%	75.00%	75.00%
CJSC Nizhnevartovskaya GRES	Jointly controlled entity	The Russian Federation	75.00%	75.00%	75.00%
JSC Stantsiya Ekibastuzskaya GRES-2	Jointly controlled entity	Kazakhstan	50.00%	50.00%	50.00%
LLC Quartz Noviye Technologii	Jointly controlled entity	The Russian Federation	50.10%	50.10%	–
LLC UK Quartz	Jointly controlled entity	The Russian Federation	50.10%	50.10%	–
JSC Kambarata HPP-1	Jointly controlled entity	Kyrgyz Republic	50.00%	50.00%	50.00%
CJSC Industrial Power Company	Jointly controlled entity	The Russian Federation	50.00%	50.00%	50.00%
LLC Interenergoeffect	Jointly controlled entity	The Russian Federation	50.00%	50.00%	–
LLC Power Efficiency Centre INTER RAO UES	Jointly controlled entity	The Russian Federation	50.01%	50.01%	–
LLC InterRAO-WorleyParsons	Jointly controlled entity	The Russian Federation	51.00%	51.00%	–
SOOO ENERGOCONNECT	Jointly controlled entity	Belorussia	50.00%	–	–
JSC INTER RAO LED-Systems	Jointly controlled entity	The Russian Federation	35.17%	–	–
LLC RT - Energy Trading	Jointly controlled entity	The Russian Federation	50.00%	–	–
UAB Alproka	Associate	Lithuania	49.99%	49.99%	49.99%
RUS Gas Turbines Holding B.V.	Associate	Netherlands	25.00%	25.00%	–
JSC Akkuyu NPP	Associate	Turkey	3.47%	33.33%	–
JSC Bashkirenergo	Associate	The Russian Federation	26.65%	–	–

	JSC Bashkir-energo	*NVGRES Holding Limited*	*JSC Stantsiya Ekibastuzs-kaya GRES-2*	*RUS Gas Turbines Holding B.V.*	*JSC Akkuyu NPP*	*JSC INTER RAO LED-Systems*	*Other*	*Total*
Carrying value at 1 January 2010 (restated)	**–**	**13,702**	**2,966**	**–**	**–**	**–**	**39**	**16,707**
Additions	–	–	315	–	1,026	–	380	**1,721**
Share of profit/(loss) after tax	–	256	761	–	–	–	160	**1,177**
Dividends received from associate and jointly controlled entities	–	–	(77)	–	–	–	(12)	**(89)**
Translation difference	–	–	39	–	(46)	–	(1)	**(8)**
Carrying value at 31 December 2010 (restated)	**–**	**13,958**	**4,004**	**–**	**980**	**–**	**566**	**19,508**
Carrying value at 1 January 2011 (restated)	**–**	**13,958**	**4,004**	**–**	**980**	**–**	**566**	**19,508**
Additions	9,934	–	–	1,131	–	600	14	**11,679**
Unrealized gain (loss)	–	–	–	–	–	–	11	**11**
Share of profit/(loss) after tax	–	1,711	1,190	(6)	17	(81)	29	**2,860**
Gain from disposal of available- for-sale financial asset	14,227	–	–	–	–	–	–	**14,227**
Change in ownership structure	–	–	–	–	(121)	7	–	**(114)**
Dividends received from associate and jointly controlled entities	–	–	(325)	–	–	–	(72)	**(397)**
Translation difference	–	–	286	–	(25)	–	–	**261**
Carrying value at 31 December 2011	**24,161**	**15,669**	**5,155**	**1,125**	**851**	**526**	**548**	**48,035**

(in million of RUR)

9. Investments in associates and jointly controlled entities (continued)

OJSC Bashkirenergo

As a result of placing additional shares in 1st half 2011, JSC INTER RAO UES acquired 26.65% of the total shares of OJSC Bashkirenergo (Note 2). At the date of acquisition the investment was initially classified as available-for-sale financial asset in the amount of RUR 14,983 million based on the stock quotations of OJSC Bashkirenergo shares. The impairment of investment in the amount of RUR 5,049 million was recognised through profit and loss in consolidated statement of comprehensive income for the year 2011 (Note 11).

At the end of December 2011 the Group's management agreed with the shareholders of JSC Bashkirenergo that the Group will acquire a controlling stake in generating segment of JSC Bashkirenergo once it is reorganized (Note 36 (c)). Accordingly, the Group re-classified its non-controlling stake in JSC Bashkirenergo from available-for-sale financial asset into investment in associated company. Fair value of the acquired identified net assets at the date of reclassification in the amount of RUR 24,161 million was determined by an independent appraiser. The gain from reclassification of available-for-sale financial asset in the amount of RUR 14,227 million was recognised in Share of profit of associate and jointly controlled entities in consolidated statement of comprehensive income for the year 2011. Fair value of the Group's share in JSC Bashkirenergo based on market quatations as at 31 December 2011 equals to RUR 9,656 million.

	31 December 2011
Non-current assets	88,756
Current assets	11,264
Non-current liabilities	(4,049)
Current liabilities	(5,271)

As of the date of authorisation of these financial statements, the Group is finalizing the process of purchase price allocation of assets and liabilities of OJSC Bashkirenergo.

NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES

The Group holds a 75% interest in NVGRES Holding Limited, including its wholly-owned subsidiary CJSC Nizhnevartovskaya GRES consolidated by equity method, per the terms of the Shareholders Agreement between the Group and TNK-BP (Russian oil and gas company), control is jointly exercised.

The following is the summarised financial information in respect of NVGRES Holding Limited and CJSC Nizhnevartovskaya GRES:

	31 December 2011	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Non-current assets	11,347	8,325	7,426
Current assets	11,006	11,488	11,876
Non-current liabilities	(689)	(494)	(503)
Current liabilities	(772)	(709)	(532)

	For the year ended 31 December 2011	***For the year ended 31 December 2010 (restated)***
Revenue	12,445	10,045
Profit for the period	2,281	342

JSC Stantsiya Ekibastuzskaya GRES-2

The Group holds a 50% interest in a jointly controlled entity – JSC Stantsiya Ekibastuzskaya GRES-2 accounted for under the equity method. The Group exercises joint control over JSC Stantsiya Ekibastuzskaya GRES-2 with AO "Samruk-Energo", which is ultimately controlled by the Government of the Republic of Kazakhstan.

The following is the summarized financial information in respect of JSC Stantsiya Ekibastuzskaya GRES-2:

	31 December 2011	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Non-current assets	11,789	9,419	7,237
Current assets	1,143	944	1,111
Non-current liabilities	(1,847)	(1,890)	(2,206)
Current liabilities	(775)	(465)	(210)

	For the year ended 31 December 2011	***For the year ended 31 December 2010 (restated)***
Revenue	6,399	4,980
Profit for the period	2,380	1,522

(in million of RUR)

9. Investments in associates and jointly controlled entities (continued)

RUS Gas Turbines Holding B.V.

In December 2010 the Group has established together with General Electric and The State Corporation Russian Technologies a new associate entity, RUS Gas Turbines Holding B.V. The Group's share in the newly-established entity was 25%. The company was established to participate in joint venture to produce and sell high-performance industrial gas turbines in the Russian Federation.

The following is the summarised financial information in respect of RUS Gas Turbines Holding B.V.

	31 December 2011	***1 January 2010 (restated)***
Current assets	4,502	1

	For the year ended 31 December 2011
Loss for the period	(22)

JSC Akkuyu NPP

In December 2010 the Group has established in Turkey together with JSC Rosenergoatom Concern and CJSC Atomstroyexport a new associate entity, JSC AKKUYU NPP. The Group's share in the newly-established entity was 33.33%. An entity was established in accordance with the agreement signed between the Government of the Russian Federation and the Government of the Republic of Turkey on cooperation in the construction and operation of a nuclear power plant in Turkey. In December 2011 the Group's share in JSC AKKUYU NPP was diluted to 3.47% after JSC AKKUYU NPP's additional issue of shares was fully bought-out by JSC Rosenergoatom Concern. Since proportion and authority of the Group's participation in Management Board of JSC AKKUYU NPP remained unchanged the Group continues to classify investment in JSC AKKUYU NPP as investment in associate entity. The loss from change in ownership structure in the amount of RUR 121 million was recognised in Share of profit of associate and jointly controlled entities in consolidated statement of comprehensive income for the year 2011.

The following is the summarised financial information in respect of the associate entity JSC AKKUYU NPP (3.47%):

	31 December 2011	***31 December 2010 (restated)***
Non-current assets	2,250	–
Current assets	23,330	2,940
Current liabilities	(1,064)	–

	For the year ended 31 December 2011
Profit for the period	482

JSC INTER RAO LED-Systems

On 19 April 2011 JSC INTER RAO UES acquired 35.17% of the total shares of JSC INTER RAO LED Systems from third parties. At the date of acquisition the investment was classified as available-for-sale financial asset in the amount of RUR 600 million. On 19 August 2011 the Group entered into joint control over the Company with another participants and the investment was reclassified to investment in jointly controlled entity. Effective Group's share in subholding Company based on calculation of non-controlling interest is 27.51%. The gain from change in ownership structure in the amount of RUR 7 million was recognised in Share of profit of associate and jointly controlled entities in consolidated statement of comprehensive income for the year 2011.The Group's share in profit and loss includes impairment of goodwill recognized as of date of acquisition in the amount of RUR 76 million (see Note 5).

	31 December 2011
Non-current assets	1,688
Current assets	1,257
Non-current liabilities	(616)
Current liabilities	(417)

	Year ended 31 December 2011
Revenue	448
Loss for the period	(53)

(in million of RUR)

9. Investments in associates and jointly controlled entities (continued)

Other

As at 31 December 2011 the Group owns shares in several other associates and jointly controlled entities.

The following is the summarised financial information in respect of these entities:

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Non-current assets	5,544	13,138	773
Current assets	17,052	4,003	1,697
Non-current liabilities	(4,891)	(11,151)	(183)
Current liabilities	(16,645)	(4,983)	(2,150)

	For the year ended 31 December 2011	For the year ended 31 December 2010 (restated)
Revenue	6,445	2,028
Profit for the period	218	332

10. Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Differences between IFRS and relevant tax bases give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Deferred tax assets and liabilities are measured at the rate expected to be applicable when the temporary differences will reverse, based on rates and legislation enacted or substantively enacted by end of the reporting period.

Deferred tax assets and liabilities are attributable to the following:

	Deferred tax assets			Deferred tax liabilities		
	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Property, plant and equipment	787	198	2,085	(13,938)	(4,878)	(4,303)
Investment property	–	–	–	(133)	(117)	(333)
Investments in associates and jointly controlled entities	24	10	3	(1,690)	(1,334)	(1,218)
Trade and other receivables	743	572	833	–	–	–
Call and Put option	–	–	–	–	(508)	–
Tax loss carry-forwards	415	162	309	–	–	–
Investments in held-for-sale and available-for-sale financial assets	–	–	–	(3,845)	–	–
Other items	1,488	1,311	1,060	(1,686)	(196)	(460)
Tax assets/(liabilities)	3,457	2,253	4,290	(21,292)	(7,033)	(6,314)
Set off of tax	(2,353)	(835)	(1,345)	2,353	835	1,345
	1,104	**1,418**	**2,945**	**(18,939)**	**(6,198)**	**(4,969)**

(b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of some of the Group entities located in Armenia, the Russian Federation and Kazakhstan and applicable to the following deductible temporary differences:

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Available-for-sale financial assets	5,245	–	–
Assets classified as held-for-sale	10,785	–	–
Call and Put options	8,286	–	–
Other	1,889	1,659	1,732

(in million of RUR)

10. Deferred tax assets and liabilities (continued)

(b) Unrecognised deferred tax assets (continued)

Deductible temporary differences mainly relate to the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 18), call option agreement with JSC Mejregionenergostroy signed in September 2011 (see Note 18) impairment of property plant and equipment and acquisition of assets available or held for sale (mainly relates to JSC Volga TGC and JSC Irkutskenergo). Deferred tax assets have not been recognised in respect of these items because in management's opinion it is not probable that future taxable profit will be available in the respective Group entity against which the Group can utilize the benefits. Unrecognized temporary differences related to property plant and equipment can be realized within next 8 years.

Movement in tax effects of temporary differences, after offsetting, during the period:

Deferred tax assets:

	1 January 2010 (restated)	*Recognised in profit and loss*	*Recognised in OCI (FCTR)*	*Recognised in OCI (Reserves)*	*31 December 2010 (restated)*
Property, plant and equipment	2,036	(1,953)	(8)	–	75
Trade and other receivables	599	(24)	–	–	575
Other items	273	14	5	435	727
Tax loss carry-forwards	37	4	–	–	41
	2,945	**(1,959)**	**(3)**	**435**	**1,418**

	1 January 2011 (restated)	*Recognised in profit and loss*	*Recognised in OCI (FCTR)*	*Recognised in OCI (Reserves)*	*31 December 2011*
Property, plant and equipment	75	705	8	–	788
Trade and other receivables	575	(463)	–	–	112
Other items	727	(137)	2	(435)	157
Tax loss carry-forwards	41	6	–	–	47
	1,418	**111**	**10**	**(435)**	**1,104**

Deferred tax liabilities:

	1 January 2010 (restated)	*Recognised in profit and loss*	*Recognised in OCI (FCT and other reserves)*	*31 December 2010 (restated)*
Property, plant and equipment	(4,254)	(504)	3	(4,755)
Investment property	(333)	216	–	(117)
Call and Put option	–	(508)	–	(508)
Investments in associates and jointly controlled entities	(1,057)	(269)	(8)	(1,334)
Investments in held-for-sale and available-for-sale financial assets	–	–	–	–
Other items	675	(166)	7	516
	(4,969)	**(1,231)**	**2**	**(6,198)**

	1 January 2011 (restated)	*Acquisition of Group entities*	*Recognised in profit and loss*	*Recognised in OCI (FCT and other reserves)*	*31 December 2011*
Property, plant and equipment	(4,755)	(8,601)	(488)	(83)	(13,927)
Investment property	(117)	–	(16)	–	(133)
Call and Put option	(508)	–	508	–	–
Investments in associates and jointly controlled entity	(1,334)	–	(299)	(58)	(1,691)
Investments in held and available for sale financial assets	–	–	(3,970)	125	(3,845)
Other items	516	295	(54)	(100)	657
	(6,198)	**(8,306)**	**(4,319)**	**(116)**	**(18,939)**

(in million of RUR)

10. Deferred tax assets and liabilities (continued)

(b) Unrecognised deferred tax assets (continued)

The Group recognised temporary differences on property, plant and equipment which relate to differences between the accounting and tax bases for depreciation rates, carrying values and statutory tax base of property, plant and equipment.

A deferred tax asset in the amount of RUR 435 million was released through other comprehensive income in relation to the hedge reserves increase of RAO Nordic Oy and the Parent company for the year ended 31 December 2011. A deferred tax liability in the amount of RUR 125 million was recognised in other items as other comprehensive income in relation to the fair value reserve and RUR 102 million in relation to the hedge reserve recognised in RAO Nordic Oy and the Parent company for the year ended 31 December 2011. Other deferred tax liabilities recognised in other comprehensive income relate to foreign currency translation reserve.

For the year ended 31 December 2010 a deferred tax asset in the amount of RUR 435 million was recognised in other comprehensive income in relation to the hedge reserve recognised in RAO Nordic Oy and the Parent company.

A deferred tax liability in the amount of RUR 8,601 million was recognised through other comprehensive income in relation to property plant and equipment in JSC Khramesi GES I, JSC Khramesi GES II and JSC WGC-3. Other items in deferred tax liability recognised through profit and loss mainly relate to discounting effect on JSC Mejregionenergostroy (see Note 20).

The Group has not recognised deferred tax liabilities in respect of temporary differences associated with investments in subsidiaries and associates as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2011 and 31 December 2010, temporary tax differences amounted to RUR 143,075 million and RUR 28,839 million, respectively.

11. Available-for-sale financial assets

As at 31 December 2011 available-for sale financial assets in the total amount of RUR 40,651 million (31 December 2010: RUR 202 million, 1 January 2010: RUR 132 million) included Investments in quoted shares in the total amount of RUR 40,454 million (31 December 2010: RUR 76 million; 1 January 2010: RUR 53 million) and Investment in unquoted shares in the total amount of RUR 197 million (31 December 2010: RUR 126 million; 1 January 2010: RUR 79 million).

Investments in quoted shares

For the year ended 31 December 2011 the amount of RUR 20,960 million was recognised as impairment loss on available-for sale financial assets through profit and loss in the consolidated statement of comprehensive income (for the year ended 31 December 2010: nil) (Note 26).

For the year ended 31 December 2011 the amount of RUR 319 million, net of tax RUR 125 million (Note 10) was recognised as loss from revaluation of the available-for sale financial assets through other comprehensive income in the consolidated statement of comprehensive income (for the year ended 31 December 2010: revaluation of RUR 23 million) (Note 18).

	31 December 2011		*31 December 2010 (restated)*		*1 January 2010 (restated)*	
	% Share capital	*Fair value*	*% Share capital*	*Fair value*	*% Share capital*	*Fair value*
JSC Volga TGC	39.39%	22,465	–	–	–	–
JSC RusHydro	1.85%	5,184	0.02%	74	0.02%	51
JSC Mosenergo	5.05%	3,433	–	–	–	–
JSC TGC-6	26.09%	3,317	–	–	–	–
JSC OGK-2	5.70%	2,539	–	–	–	–
JSC FGC UES	0.37%	1,298	–	–	–	–
JSC TGK-1	1.97%	707	–	–	–	–
JSC TGK-9	1.71%	362	–	–	–	–
Plug Power	19.70%	292	–	–	–	–
JSC Kuzbassenergo	1.97%	291	–	–	–	–
JSC Quadra	2.25%	241	–	–	–	–
JSC Yenisei TGC (TGC-13)	2.16%	213	–	–	–	–
JSC TGK-2	1.21%	52	–	–	–	–
JSC IDGC of Centre	0.07%	19	–	–	–	–
JSC Yaroslavl Power Sale Company	0.85%	16	–	–	–	–
JSC TGK-14	0.60%	13	–	–	–	–
JSC Novosibirskenergo	0.16%	7	–	–	–	–
JSC Irkutskenergo	0.01%	5	–	–	–	–
Other	–	–	–	2	–	2
Total	**–**	**40,454**	**–**	**76**	**–**	**53**

(in million of RUR)

11. Available-for-sale financial assets (continued)

Investments in quoted shares (continued)

The Group does not exercise significant influence over JSC Volga TGC and JSC TGC-6 with respective ownership interest of 39.39% and 26.09%, respectively. Accordingly, both investments were accounted for as available-for-sale financial assets.

The investment in JSC RAO Energy System of East with ownership interest of 4.29% (Note 1) was used to purchase 0.20% of shares of JSC RusHydro during its additional issue of shares which the Parent acquired through a pre-emption right. As result of additional issue of shares by JSC RusHydro the Group's share in JSC RusHydro was diluted and as at 31 December 2011 equaled to 1.85% of shares.

In August 2011, the Group sold 3.47% shares of JSC OGK-6 and 0.62% of shares of JSC OGK-2 (Note 1) for the total cash consideration of RUR 1,917 million with a gain in the amount of RUR 557 million recognized through profit and loss in the consolidated statement of comprehensive income. As at 31 December 2011, as a result of merger of JSC OGK-6 into JSC OGK-2 during reorganization, the Group became the owner of 5.70% of JSC OGK-2.

Investments in unquoted shares

Fair value of investments in unquoted shares as at 31 December 2011 included impairment of investment in JSC Sangtudinskaya GES-1 in the amount of RUR 530 million (31 December 2010: RUR 392 million; 1 January 2010: RUR 402 million).

As a result of liquidation of JSC TGK-11 Holding in October 2011, the Group received cash consideration in the amount of RUR 192 million. Fair value of investment in JSC TGK-11 Holding at the date of disposal in the amount of RUR 41 million included impairment in the amount of RUR 330 million (31 December 2010: RUR 298 million). Cash outflow on the acquisition of investment in JSC TGK-11 Holding in December 2010 amounted to RUR 335 million.

As a result of sale of JSC Tomskenergoremont included in Other investmnent in unquoted shares in December 2011, the Group received cash consideration in the amount of RUR 151 million. Fair value of investment in JSC Tomskenergoremont at the date of acquisition and disposal amounted to RUR nil.

Impairment of available-for sale investments for the year ended 31 December 2011 in the total amount of RUR 170 million was recognised through profit and loss in the consolidated statement of comprehensive income (for the year ended 31 December 2010: RUR 288 million) (Note 26).

	31 December 2011		***31 December 2010 (restated)***		***1 January 2010 (restated)***	
	% Share capital	***Fair value***	***% Share capital***	***Fair value***	***% Share capital***	***Fair value***
JSC Sangtudinskaya GES-1	16.66%	161	2.18%	88	2.18%	78
JSC TGK-11 Holding	–	–	15.07%	37	–	–
Other	–	36	–	1	–	1
Total	**–**	**197**	**–**	**126**	**–**	**79**

(in million of RUR)

12. Other non-current assets

		31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Financial non-current assets		***933***	***5,884***	***562***
Non-current trade receivables		288	193	275
	Less impairment provision	*(82)*	*(65)*	*(146)*
Non-current trade receivables – net		**206**	**128**	**129**
Other non-current receivables		970	3,575	685
	Less impairment provision	*(286)*	*(408)*	*(325)*
Other non-current receivables – net		**684**	**3,167**	**360**
Non-current loans issued (including outstanding interest)		9	58	76
	Less impairment provision	*(8)*	*(10)*	*(3)*
Non-current loans issued (including outstanding interest) – net		**1**	**48**	**73**
Long-term derivative financial instruments – assets		–	2,541	–
Long-term bank deposits		42	–	–
		42	**2,541**	**–**
Non-financial non-current assets		**3,818**	**882**	**10,731**
Non-current advances to suppliers and prepayments		2,616	–	6
VAT recoverable		789	487	375
Other non-current assets		413	395	10,350
		4,751	**6,766**	**11,293**

As at 31 December 2011 non-current advances to suppliers and prepayments in the amount of RUR 2,616 million related to advances given to suppliers of equipment to Ecuador and Venezuela (see Note 22).

As at 31 December 2010 other non-current receivables included long-term bills of exchange held by JSC OGK-1 issued by CJSC VTB-Leasing with carrying value of RUR 2,715 million, which were sold to a third party during 2011.

As at 31 December 2010 long-term derivative financial instruments in the amount of RUR 2,541 million represented the fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010. At 31 December 2011 the call and put option was included in Long-term derivative financial instruments – liabilities according to its fair value (see Note 22).

As at 1 January 2010 Other non-current assets included RUR 10,070 million related to construction of the second power generating block at Kaliningradskaya TEC-2. As at 31 December 2010 the amount was reclassified to other current assets (see Note 17).

Fair value of long-term bank deposits approximate their carrying value.

(in million of RUR)

12. Other non-current assets (continued)

Movements on the group provision for impairment of receivables are as follows:

	Non-current trade receivables	*Non-current loans issued incl. interest*	*Other non-current receivables*	*Total provision*
At 1 January 2011 (restated)	**(65)**	**(10)**	**(408)**	**(483)**
Provision for receivables impairment	(11)	–	(67)	**(78)**
Release of provision	15	–	81	**96**
Accrual of discount effect	(18)	–	(70)	**(88)**
Unwind of discount	3	–	46	**49**
Reclassification of short-term portion	–	–	44	**44**
Acquisition of controlling interest	–	–	88	**88**
Loans written off during the year as uncollectible	–	2	–	**2**
Translation difference	(6)	–	–	**(6)**
At 31 December 2011	**(82)**	**(8)**	**(286)**	**(376)**

	Non-current trade receivables	*Non-current loans issued incl. interest*	*Other non-current receivables*	*Total provision*
At 1 January 2010 (restated)	**(146)**	**(3)**	**(325)**	**(474)**
Provision for receivables impairment	(1)		(148)	**(149)**
Provision for loans impairment		(7)		**(7)**
Release of provision	10	–	–	**10**
Accrual of discount effect	(14)	–	(4)	**(18)**
Unwind of discount	11		68	**79**
Reclassification of short-term portion	29	–	2	**31**
Receivables written off during the year as uncollectible	45	–	–	**45**
Translation difference	1	–	(1)	**–**
At 31 December 2010 (restated)	**(65)**	**(10)**	**(408)**	**(483)**

13. Inventories

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Fuel production stocks	5,325	2,505	2,889
Spare parts	2,272	1,673	1,428
Materials and consumables	2,214	1,613	1,577
Other	134	257	89
	9,945	**6,048**	**5,983**

Allowance for inventory obsolescence equalled as at 31 December 2011 RUR 236 million (as at 31 December 2010: RUR 102 million; as at 1 January 2010: RUR 104 million). The charge of provision for the year 2011 in the amount of RUR 120 million (for the year 2010: release in the amount of RUR 2 million) was recognised in Other provisions within Operating expenses in consolidated statement of comprehensive income.

As at 31 December 2011 the Group has a technological inventory in the amount RUR 4,033 million, mostly represented by fuel and spare parts (as at 31 December 2010: RUR 2,112 million; as at 1 January 2010: RUR 2,276 million).

(in million of RUR)

14. Accounts receivable and prepayments

		31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Financial assets:		**34,391**	**35,200**	**23,328**
Trade receivables		41,134	37,464	26,969
	Less impairment provision	*(12,956)*	*(9,747)*	*(8,068)*
Trade receivables – net		**28,178**	**27,717**	**18,901**
Other receivables		7,057	7,813	4,698
	Less impairment provision	*(1,487)*	*(687)*	*(585)*
Other receivables - net		**5,570**	**7,126**	**4,113**
Short-term loans issued (including outstanding interest)		423	359	314
	Less impairment provision	*(5)*	*(2)*	–
Short-term loans issued (including outstanding interest)		**418**	**357**	**314**
Dividends receivable		225	–	–
Non-financial assets:		**10,097**	**6,973**	**8,261**
Advances to suppliers and prepayments		2,582	2,604	3,611
	Less impairment provision	*(152)*	*(160)*	*(55)*
Advances to suppliers and prepayments – net		**2,430**	**2,444**	**3,556**
Short-term taxes recoverable		4,390	1,838	1,743
Taxes prepaid		3,277	2,691	2,962
		44,488	**42,173**	**31,589**

As at 31 December 2011 short-term taxes recoverable were mainly contributed by JSC OGK-1 and JSC WGC-3 and included RUR 874 million of input VAT on construction of Yujnouralskaya GRES, Gusinoozerskaya GRES and Cherepetskaya GRES, RUR 846 million of input VAT on construction of Urengoyskaya GRES.

As at 31 December 2011 VAT in the total amount of RUR 2,999 million (31 December 2010: RUR 2,604 million; 1 January 2010: RUR 2,811 million) is included in taxes prepaid.

Movements on the provision for impairment of receivables are as follows:

	Trade receivables	*Advances to suppliers and prepayments*	*Short-term loans issued (incl. interest)*	*Other receivables*	*Total provision*
At 1 January 2011 (restated)	**(9,747)**	**(160)**	**(2)**	**(687)**	**(10,596)**
Provision for receivables impairment	(7,700)	(63)	–	(980)	**(8,743)**
Release of provision	4,348	39	–	738	**5,125**
Unwinding of discount	–	–	–	15	**15**
Receivables written off during the year as uncollectible (provided as at year beginning)	1,108	19	–	73	**1,200**
Reclassification	–	14	–	(14)	**–**
Reclassification of long-term portion	–	–	–	(44)	**(44)**
Foreign exchange (loss)/gain	(10)	–	–	1	**(9)**
Acquisition of controlling interest	(747)	–	–	(570)	**(1,317)**
Disposal of controlling interest	–	–	(3)	1	**(2)**
Translation difference	(208)	(1)	–	(20)	**(229)**
At 31 December 2011	**(12,956)**	**(152)**	**(5)**	**(1,487)**	**(14,600)**

(in million of RUR)

14. Accounts receivable and prepayments (continued)

	Trade receivables	*Advances to suppliers and prepayments*	*Short-term loans issued (incl. interest)*	*Other receivables*	*Total provision*
At 1 January 2010 (restated)	**(8,068)**	**(55)**	**–**	**(585)**	**(8,708)**
Provision for receivables impairment	(3,537)	(105)		(387)	**(4,029)**
Provision for loans issued impairment	–	–	(2)	–	**(2)**
Release of provision	1,824	10	–	162	**1,996**
Unwinding of discount	1	–	–	7	**8**
Receivables written off during the year as uncollectible (provided as at year beginning)	14	(10)	–	112	**116**
Reclassification of long-term portion	(29)	–	–	(2)	**(31)**
Foreign exchange gain	2	1	–	3	**6**
Translation difference	46	(1)	–	3	**48**
At 31 December 2010 (restated)	**(9,747)**	**(160)**	**(2)**	**(687)**	**(10,596)**

Carrying value of financial assets included in accounts receivable and prepayments can be presented as follows:

At 31 December 2011	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Total*
Not past due not impaired	15,437	418	3,837	225	**19,917**
Past due but not impaired	6,549	–	572	–	**7,121**
Past due and impaired	19,148	5	2,648	–	**21,801**
Total	**41,134**	**423**	**7,057**	**225**	**48,839**

At 31 December 2010 (restated)	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Total*
Not past due not impaired	18,089	193	6,940	–	**25,222**
Past due but not impaired	4,755	164	46	–	**4,965**
Past due and impaired	14,620	2	827	–	**15,449**
Total	**37,464**	**359**	**7,813**	**–**	**45,636**

At 1 January 2010 (restated)	*Trade receivables*	*Short-term loans issued (including interest)*	*Other receivables*	*Dividends receivable*	*Total*
Not past due not impaired	13,619	314	3,772	–	**17,705**
Past due but not impaired	2,191	–	161	–	**2,352**
Past due and impaired	11,159	–	765	–	**11,924**
Total	**26,969**	**314**	**4,698**	**–**	**31,981**

As at 31 December 2011 accounts receivable of RUR 13,186 million (31 December 2010: RUR 3,342 million) were past due but not impaired. These relate to a number of independent counterparties from whom there is no recent history of default as well as none expected. The ageing analysis of these receivables is as follows:

Past due but not impaired	*31 December 2011*	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Up to 3 month	4,125	3,569	1,367
3 to 6 month	330	493	105
6 to 12 month	1,040	508	496
Over 12 months	1,626	395	384
Total	**7,121**	**4,965**	**2,352**

(in million of RUR)

14. Accounts receivable and prepayments (continued)

The impaired accounts receivable mainly comprise amounts due from wholesalers. The ageing of these receivables is as follows:

Past due and impaired	***31 December 2011***	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Up to 3 month	6,567	2,598	2,928
3 to 6 month	1,305	2,830	1,361
6 to 12 month	3,119	3,178	1,718
Over 12 months	10,810	6,843	5,917
Total	**21,801**	**15,449**	**11,924**

The Group does not hold any collateral as security.

15. Cash and cash equivalents

	31 December 2011	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Cash at bank and in hand, national currency	9,757	18,138	7,317
Cash at bank and in hand, foreign currency	3,026	2,584	2,956
Bank deposits with maturity of three months or less	30,735	10,548	4,436
Total	**43,518**	**31,270**	**14,709**

These following tables provide information about the cash and cash equivalent balances of the Group. The balances are neither past due nor impaired:

Financial institution	***Credit rating***	***Rating agency***	***31 December 2011***	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Gazprombank JSC	BB+/Stable/B	Standard&Poor's	14,677	3,820	967
Sberbank JSC	BBB/Stable/F3	Fitch	8,444	2,510	3,987
Peresvet Bank CJSC	A+/Stable	Expert RA	4,768	12,074	2,475
Credit bank of Moscow JSC	B+/Stable/B	Fitch	3,773	4,590	–
VTB Bank JSC	BBB/Stable/F3	Fitch	2,084	461	70
Alfa-Bank JSC	BB+/Stable/B	Fitch	1,758	861	1,849
ROSSIYA JSC	B+/Stable/B	Standard&Poor's	1,638	264	–
Transcapitalbank CJSC	B1/Stable/NP	Moody's	942	–	53
Pervij respublikanskij bank OJSC	B3/Negative/NP	Moody's	585	–	–
NOMOS-BANK JSC	BB/Stable/B	Fitch	507	147	312
NOVIKOMBANK CJSC	B2/Stable/NP	Moody's	500	–	–
Bank of Georgia JSC	BB-/Stable/B	Fitch	437	311	90
Nordea Bank	BBB+/Stable/F2	Fitch	380	880	98
ING Bank NV	Aa3/Negative/P-1	Moody's	373	239	21
SWEDBANK AB	A/Stable/F1	Fitch	342	680	–
Ameriabank JSC	Unrated	–	224	143	49
VTB Bank Georgia JSC	BB/Stable/B	Fitch	135	–	16
BusinessInvestBank JSC	Unrated	–	129	–	–
VTB Bank Armenia CJSC	Unrated	–	121	28	8
Bank Saint-Petersburg JSC	Ba3/Stable/NP	Moody's	114	5	3
Credit Europe Bank NV	BB/Stable/B	Fitch	114	–	–
Standard Bank JSC	Baa2/Negative/P-2	Moody's	100	147	111
Other			1,373	4,110	4,600
Total			**43,518**	**31,270**	**14,709**

(in million of RUR)

16. Assets classified as held-for-sale

	Fair value at the date of acquisition	***Impairment***	***Disposal of investments***	***Reclassification***	***Fair value at 31 December 2011***
JSC Irkutskenergo	38,048	–	–	–	**38,048**
JSC Enel OGK-5	19,260	(797)	–	–	**18,463**
JSC Fortum	1,210	(558)	–	–	**652**
JSC Tomskenergosbyt	729	(625)	–	–	**104**
JSC Kubanenergosbyt	635	–	(635)	–	**–**
JSC Kuban Generation Company	41	–	(41)	–	**–**
JSC E.ON Russia	–	–	–	4,395	**4,395**
Total	**59,923**	**1,980**	**(676)**	**4,395**	**61,662**

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 40.00% of the ordinary shares of JSC Irkutskenergo (see Note 1). In accordance with the decision of the Russian Government the investment in JSC Irkutskenergo is to be contributed in the course of additional share issue of JSC RusHydro in 2012. On the date of acquisition (25 March 2011) the Group has classified the investment as asset held-for-sale in the amount of RUR 38,048 million being the cost of consideration given.

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 3.04% of the ordinary shares of JSC Fortum (Note 1). The Group plans to dispose 3.04% of the ordinary shares of JSC Fortum in the 1th quarter 2012 (Note 36). At the date of acquisition the investment in JSC Fortum was recognised in the amount of RUR 1,210 million (as at 31 December 2011: RUR 652 million). The impairment of investment in the amount of RUR 558 million was recognised through profit and loss in the consolidated statement of comprehensive income (Note 26).

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.43% of the ordinary shares of JSC Enel OGK-5 and 31.27% of total shares of JSC Tomskenergosbyt (see Note 1). At the acquisition date, management had plans to sell these investments during twelve months from the date of acquisition (Note 36). At the date of acquisition the investments were recognised in the amount of RUR 19,260 million and RUR 729 million, respectively (as at 31 December 2011: RUR 18,463 million and RUR 104 million, respectively). The impairment of investments in the total amount of RUR 1,422 million was recognised through profit and loss in the consolidated statement of comprehensive income (Note 26).

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 3.26% of the ordinary shares of JSC E.ON Russia (see Note 1). At the date of acquisition the investment was recognised as available-for-sale financial asset in the amount of RUR 5,638 million. At 31 December 2011 the investment was reclassified to assets held-for-sale in the amount of RUR 4,395 million as management decided to sell this investment (Note 36). The impairment of investments in the total amount of RUR 1,243 million was recognised through profit and loss as impairment of available-for-sale investments of consolidated statement of comprehensive income (Note 26, Note 11).

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.26% of ordinary shares of JSC Kubanenergosbyt (see Note 1). In September 2011, the Group sold the investment to a third party for RUR 850 million. At the date of acquisition the investment in JSC Kubanenergosbyt was recognised in the amount of RUR 635 million (at the date of disposal: RUR 635 miilion).

As a result of placing additional shares in the 1st half 2011, JSC INTER RAO UES acquired 26.26% of ordinary shares of JSC Kuban Generation Company (Note 1). In December 2011, the Group sold the investment to a third party for RUR 450 million. At the date of acquisition the investment in JSC Kuban Generation Company was recognised in the amount of RUR 41 million (as at the date of disposal: RUR 41 million).

The net gain on acquisition of available-for-sale financial assets and assets classified as held-for-sale in the amount of RUR 333 million was recognised within the excess of the acquired share in the fair value of the identifiable assets and liabilities over the cost of investment and gain from acquisition of available-for-sales financial assets and assets classified as held-for-sale, net in the consolidated statement of comprehensive income.

(in million of RUR)

17. Other current assets

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Bank deposits with maturity of 3-12 months	38,667	1,275	730
Promissory notes	2,865	–	–
Short-term derivative financial instruments	606	183	–
Restricted cash	259	862	267
Other	272	15,828	204
Total	**42,669**	**18,148**	**1,201**

As at 31 December 2011 promissory notes included six short-term promissory notes held by Parent company issued by CJSC VTB-Leasing with carrying value of RUR 2,865 million (nominal value per promissory note amounts to RUR 0.5 million).

As at 31 December 2011 short-term derivative financial instruments included the fair value of open electricity derivatives of RAO Nordic Oy for the purposes of hedging of future sales in the amount of RUR 468 million (Note 21).

As at 31 December 2011 short-term derivative financial instruments included the fair value of foreign currency option contract of the Parent company with expiry date 28 December 2012 in the amount of RUR 121 million and foreign currency forward contracts in the amount of RUR 17 million (31 December 2010: RUR 183 million) (Note 18).

As at 31 December 2010 other current assets included RUR 15,626 million relating to construction of the second power generating block at Kaliningradskaya TEC-2. As at 31 December 2011 these other current assets were reclassified to Property, plant and equipment (see Note 6).

As at 31 December 2011 restricted cash balances include cash deposited in OKO Bank (held as collateral in favour of Fingrid) and Nordea (held as collateral in favour of NASDAQ OMX AB) in the aggregate amount of RUR 93 million (31 December 2010: RUR 693 million; 1 January 2010: RUR 149 million).

As at 31 December 2011 restricted cash balances include cash deposited in VTB Bank Armenia (collateral security in favour of EBRD on the loan agreement) in the amount of RUR 161 million (31 December 2010: RUR 168 million; 1 January 2010: RUR 21 million).

Bank deposits with original maturity of 3-12 months at 31 December 2011

Bank	*Interest rate*	*Carrying value*
Rosselkhozbank JSC	4.86%-6.70%	8,791
Svyaz-bank JSC	5.40%-7.00%	7,932
Credit bank of Moscow JSC	6.25%-8.60%	6,730
VTB Bank JSC	3.35%	3,708
Gazprombank JSC	7.85%-8.75%	3,413
Peresvet Bank CJSC	6.55%	3,200
NOMOS-BANK JSC	6.50%	2,000
Bank Zenit	6.50%-7.20%	1,318
Other		1,575
Total		**38,667**

Bank deposits with original maturity of 3-12 months at 31 December 2010 (restated)

Bank	*Interest rate*	*Carrying value*
Intrastbank	8.60%	400
Bank Narodniy credit JSC	10.50%	300
Guta Bank JSC	8.00%	300
Russ-Bank JSC	4.50%-9.25%	192
Ardshininvestbank CJSC	10.00%	13
Transcapitalbank CJSC	5.60%	11
Other		59
Total		**1,275**

(in million of RUR)

17. Other current assets (continued)

Bank deposits with original maturity of 3-12 months at 1 January 2010 (restated)

Bank	*Interest rate*	*Carrying value*
Intrastbank JSC	13.00%	400
Bank Narodniy credit JSC	11.00%	300
Sberbank JSC	11.00%	30
Total		**730**

As at 31 December 2011 bank deposits with maturity of 3-12 months included RUR 27,792 million placed by JSC WGC-3 in Rosselkhozbank JSC, Svyaz-bank JSC, VTB Bank JSC, Gazprombank JSC, Credit bank of Moscow JSC and Bank Zenit JSC are retained for the purpose of settlement of payables for construction (see Note 31).

18. Equity

Share capital

	31 December 2011	*31 December 2010*	*1 January 2010*
Number of ordinary shares issued and fully paid (in units)	9,716,000,000,000	2,893,027,370,229	2,274,113,845,013
Par value (in Russian roubles ("RR")	0.02809767	0.02809767	0.02809767
Share capital (in million Russian roubles)	272,997	81,287	63,897

Change in Retained earnings as a result of acquisition of controlling interests. As described in the paragraph "Predecessor accounting" (see Note 2) the Company accounted for acquisitions of controlling interests from entities under common control using pooling-of-interests method (Note 1, 2). As a result, the Group consolidated the entities acquired and represented the financial statements from the earliest period presented (1 January 2010) as if these entities had been always consolidated. The difference in the amount of RUR 28,708 million between net assets acquired and non-controlling interest was recognised in retained earnings as at 1 January 2010. The table below represents changes in retained earnings for the period from 1 January 2010 as a result of acquisition of subsidiaries under common control.

Balance at 1 January 2010 (restated)	**28,708**
Annual profit of entities acquired	6,435
Issue of shares by one of entities merged (JSC OGK-1)	2,318
Dividends to shareholders	(2,138)
Change in Group structure	50
Foreign currency translation reserve related to JSC RazTES	24
Balance at 31 December 2010 (restated)	**35,397**
Balance at 1 January 2011 (restated)	**35,397**
Profit of entities acquired through additional issue of shares	3,974
Dividends to shareholders	(460)
Foreign currency translation reserve related to JSC RazTES	(48)
Change in Group structure	(2)
Nominal value of shares issued and transferred by JSC INTER RAO UES for the acquisition of controlling interests from entities under common control	(27,124)
Balance at 31 December 2011	**11,737**

(in million of RUR)

18. Equity (continued)

Movements in outstanding shares (in thousand of units)

	Issued shares		Treasury shares		Total	
	thousand units	million RUR	thousand units	million RUR	thousand units	million RUR
1 January 2010	**2,274,113,845**	**63,897**	**(98,064,455)**	**(2,755)**	**2,176,049,390**	**61,142**
Additional issue of ordinary shares	618,913,525	17,390	–	–	**618,913,525**	**17,390**
Sale of treasury shares	–	–	11,984,361	337	**11,984,361**	**337**
Redemption of treasury shares under the share option plan	–	–	44,316,120	1,245	**44,316,120**	**1,245**
31 December 2010	**2,893,027,370**	**81,287**	**(41,763,974)**	**(1,173)**	**2,851,263,396**	**80,114**

	Issued shares		Treasury shares		Total	
	thousand units	million RUR	thousand units	million RUR	thousand units	million RUR
1 January 2011	**2,893,027,370**	**81,287**	**(41,763,974)**	**(1,173)**	**2,851,263,396**	**80,114**
Additional issue of ordinary shares	5,950,622,717	167,199	–	–	**5,950,622,717**	**167,199**
Acquisition of entities under common control	872,349,913	24,511	–	–	**872,349,913**	**24,511**
Acquisition of treasury shares	–	–	(2,918,303,817)	(81,998)	**(2,918,303,817)**	**(81,998)**
Sale of treasury shares	–	–	1,726,571,437	48,513	**1,726,571,437**	**48,513**
Redemption of treasury shares under the share option plan	–	–	1,647,564	46	**1,647,564**	**46**
31 December 2011	**9,716,000,000**	**272,997**	**(1,231,848,790)**	**(34,612)**	**8,484,151,210**	**238,385**

2010. The shareholders meeting held on 21 December 2009 approved the additional issue of 1.6 billion ordinary shares of JSC INTER RAO UES with nominal value of RUR 0.02809767 each. On 27 April 2010 the Board of Directors of the Parent company approved the issue cost of the additional ordinary shares in the amount of RUR 0.0402 per share. The shareholders of the Parent bought out under the pre-emptive right 89,610 million shares for the total consideration of RUR 3,602 million. As a result of additional issue of shares the authorised share capital increased by RUR 17,390 million.

On 18 June 2010 State Corporation Vnesheconombank purchased 529,303 million of shares under the closed subscription for total consideration of RUR 21,278 million. The cash received from SC Vnesheconombank was used to fund the construction of Urengoyskaya GRES through participation of JSC INTER RAO UES in the additional issue of shares of JSC OGK-1 in the fourth quarter 2010.

2011. The shareholders meeting held on 25 June 2010 approved the issue of 13.8 billion ordinary shares of JSC INTER RAO UES with the nominal value of RUR 0.02809767 each. On June 2011, JSC INTER RAO UES completed its placement of additional shares. 6,822,972,629,771 additional shares were issued.

As a result of the additional issue of shares in the 1st half of 2011, the authorized share capital of JSC INTER RAO UES increased by RUR 191,790 million and as at 31 December 2011 consists of 9,716 billion of ordinary shares.

(in million of RUR)

18. Equity (continued)

Put and call options

In June 2010 the Group entered into a put and call option agreement with SC Vnesheconombank, according to which:

- SC Vnesheconombank grants to the Group an irrevocable right (Call option) to purchase, at any point of time within six-year period, at the Call Option Price, all of the shares purchased by SC Vnesheconombank under a closed subscription (see above) and held by SC Vnesheconombank by the respective date; Call Option Price is the largest from the following variables at the date of exercise: a) put option price, b) put option price plus 20% multiplied by the weighted average value of the Company's share on the MICEX over the preceding six-month period prior date of delivery minus put option price, c) put option price plus 20% multiplied by the net present value of gross revenue received by the Company from resale of option shares minus put option price.
- The Group grants to SC Vnesheconombank an irrevocable right (Put option) to sell, at the Put Option Price, some or all of the shares purchased by SC Vnesheconombank under the closed subscription; the right can be exercised by SC Vnesheconombank within three-year period following the first three years from the date it purchased the shares. Put Option Price is determined based on the purchase price of RUR 0.0402 adjusted for the Russian Federation Central Bank interest rate + 1% for the period.

The difference between the market price of the shares under put and call option agreement at the date of transaction and cash obtained by the Group from shares issued in the amount of RUR 3,970 million was recognised as share premium in the consolidated statement of changes in equity for the year ended 31 December 2010. As at 31 December 2011 the Group did not intend to exercise the Call option.

In September 2011 the Group entered into a call option agreement with JSC Mejregionenergostroy. The Group signed the collateral agreement with JSC Mejregionenergostroy under long-term loan agreement (Note 20 (v)). On 20 September 2011 the Group transferred to JSC Mejregionenergostroy 324,915,627,887 of the Parent's ordinary shares as collateral for execution of the loan agreement. On 6 September 2011 the Group signed the addendum to the long-term loan agreement under which the Group granted the option to JSC Mejregionenergostroy to buy the pledged shares for the consideration of RUR 0.0535 per share as a settlement for the loan and accrued interest. As at 31 December 2011 the fair value of the call option equalled to RUR 2,352 million of loss which has been recognised in the Consolidated Statement of Comprehensive Income (see Note 27).

Treasury shares

As at 31 December 2011 the Group held 1,231,848,790 (31 December 2010: 41,763,974; 1 January 2010: 98,064,455) thousands treasury shares amounted to RUR 34,612 million (31 December 2010: RUR 1,173 million; 1 January 2010: RUR 2,755 million)

All the treasury shares have been obtained as a result of the reorganisation of the Parent company in earlier periods and being held by one of the Company's 100% owned subsidiary.

During the year 2010 44,316,120 thousand of treasury shares on the amount of RUR 1,245 million have been redeemed by the management of the Group under share option programme (see Note 33).

The Group sold 11,984,361 thousand of treasury shares in the amount of RUR 337 million to third parties during the 2nd half of 2010. Cash consideration for the treasury shares sold equalled to RUR 552 million.

During the year 2011 as a result of the additional issue of shares 2,918,303,817 thousands treasury shares have been obtained by the Group for the amount of RUR 81,998 million. 1,708,028,387 thousand of these treasury shares in the amount of RUR 47,992 million have been placed as purchase consideration for controlling interest acquired during the reporting period.

During the year 2011 18,543,050 thousand of treasury shares in the amount of RUR 521 million were sold to third parties. Consideration for treasury shares sold equalled to RUR 680 million.

During the 1st half of 2011 1,647,564 thousand of treasury shares in the amount of RUR 46 million have been redeemed by management of the Group under share option programme (see Note 33). Cash consideration for the treasury shares sold equalled to RUR 12 million.

Share premium

2010. The difference between the issue cost (RUR 0.0402) and the nominal value of shares issued in 2010 in the amount of RUR 7,490 million has been recognised as share premium in the consolidated statement of financial position and consolidated statement of changes in equity. The difference between the market price of the shares under put and call option agreement at the date of its conclusion and the cash obtained by the Group from share issue in the amount of RUR 3,970 million (as at 31 December 2010 – 3,970) was recognised as share premium in the consolidated statement of changes in equity.

(in million of RUR)

18. Equity (continued)

Share premium (continued)

2011. Share premium represents the difference between the stock quotation of JSC INTER RAO UES shares at the date of acquisition of shares in Investments in quoted and unquoted financial instruments (Available-for sale financial assets, Assets classified as held-for-sale assets, Associate companies and shares in subsidiaries (acquired from third parties) and nominal value of shares issued of RUR 0.02809767 each. At 31 December 2011 the effect of additional issue of shares in 2011 in the amount RUR 58,246 million has been recognised as share premium in the consolidated statement of financial position and consolidated statement of changes in equity.

Effect from additional issue of shares

The total effect in the amount of RUR 204,609 million represented in the consolidated statement of changes in equity for the year 2011 consists of:

- the cost of investments in quoted shares in the amount of RUR 76,335 million;
- the cost of investments in unquoted shares in the amount of RUR 443 million;
- the cost of assets classified as held-for-sale in the amount of RUR 59,256 million (Note 16);
- the cost of investment in JSC WGC-3 in the amount of RUR 52,108 million and non-controlling interest recognised at the date of acquisition in the amount of RUR 16,417 million;
- cash received from sale of shares to third parties in the amount of RUR 50 million.

Dividends

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company form the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. However, this legislation and other statutory laws and regulations are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements. The same is applicable for the entities merged.

Consolidated Statement of Changes in Equity includes dividends declared by entities acquired under common control before their legal acquisition (date of acquisition through the additional issue of shares by the Parent during the 1st half 2011). These dividends actually represent a direct distribution to the shareholders of the entities acquired under common control and, therefore, represent a distribution of their equity recognised in these financial statements.

On 28 April 2010 LLC RN-Energo declared dividends for the year 2009 in the amount of of RUR 26 million, the total amount were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests.

On 30 April 2010 UAB INTER RAO Lietuva, the Group entity, declared dividends for the year 2009 of LTL 28.98 thousand per share in the amount of LTL 29 million or RUR 339 million, out of which LTL 14 million or RUR 166 million were paid to non-controlling shareholders.

On 31 March 2010 LLP Kazenergoresurs, the Group entity, declared dividends for the year 2009 in the amount of KZT 172 million or RUR 24 million, out of which KZT 41 million or RUR 6 million were paid to non-controlling shareholders.

On 28 May 2010 JSC Tambov Energy Retailing Company, the Group entity, declared dividends for the year 2009 of RUR 0.003727863 per preference share in the amount of RUR 1 million, the total amount was paid to non-controlling shareholders.

On 25 June 2010 JSC Hrazdan Energy Company (RazTES) declared dividends for the year 2009 of AMD 48.15735 per share in the amount of AMD 76.9 million or RUR 7 million, the total amount were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests.

On 24 June 2010 JSC Saint-Petersburg Sale Company declared dividends for the year 2009 of RUR 0.608606 per preference share in the amount of RUR 80 million, out of which RUR 49 million were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests and RUR 31 million were payable to non-controlling shareholders.

On 30 June 2010 one of subsidiaries of JSC Mosenergosbyt declared dividends for the year 2009 of RUR 6 million, out of which RUR 3 million were paid to non-controlling shareholders.

On 29 September 2010 JSC Mosenergosbyt declared dividends for six months 2010 of RUR 0.1020646850 per ordinary share in the amount of RUR 2,883 million, out of which RUR 1,468 million were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests and RUR 1,415 million were payable to non-controlling shareholders.

(in million of RUR)

18. Equity (continued)

Dividends (continued)

On 28 December 2010 JSC Saint-Petersburg Sale Company declared dividends for nine months 2010 of RUR 1.06506825545 per ordinary and preference shares in the amount of RUR 956 million, out of which RUR 588 million were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests and RUR 71 million were payable to non-controlling shareholders.

On 17 March 2011 JSC Industrial Energetics, the Group entity, declared and paid dividends for the year 2010 of RUR 24,900 per share in the amount of RUR 75 million, out of which RUR 19 million were paid to minorities.

On 10 June 2011 JSC Industrial Energetics, the Group entity, declared dividends for the 1st quarter 2011 of RUR 39,900 per share in the amount of RUR 120 million, out of which RUR 30 million were paid to non-controlling shareholders.

On 27 April 2011 UAB INTER RAO Lietuva, the Group entity, declared dividends for the year 2010 of of LTL 60.8 thousand per share in the amount of LTL 60.8 million or RUR 715.9 million, out of which LTL 29.8 million or RUR 351 million were paid to non-controlling shareholders.

On 29 April 2011 LLC RN-Energo declared dividends for the year 2010 in the amount of RUR 353 million, the total amount were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests.

On 24 June 2011 the Parent company declared dividends for the year 2010 of RUR 0.00001544 per share in the amount of RUR 105 million.

On 30 June 2011 LLP Kazenergoresurs, the Group entity, declared dividends for the year 2010 in the amount of KZT 246.5 million or RUR 47 million, out of which KZT 59.5 million or RUR 10 million were paid to non-controlling shareholders.

On 24 June 2011 JSC Saint-Petersburg Sale Company, the Group entity, declared dividends for the year 2010 of RUR 0.0521448952 per share for in the amount of RUR 47 million, out of which RUR 3 million were paid to non-controlling shareholders.

On 28 June 2011 JSC Tambov Energy Retailing Company, the Group entity, declared dividends for the year 2010 of RUR 0.0257325356 per preference share in the amount of RUR 6 million to non-controlling shareholders.

On 29 June 2011 JSC Saratovenergo, the Group entity, declared dividends for the year 2010 of RUR 0.010008598314 per preference share in the amount of RUR 15 million to non-controlling shareholders.

In April – June 2011 subsidiaries of JSC Mosenergosbyt , the Group entity, declared dividends for the year 2010 in the amount of RUR 94 million, out of RUR 43 million were paid to non-controlling shareholders.

On 12 July 2011 LLC RN-Energo declared dividends for six months ended 30 June 2011 in the amount of RUR 107 million, the total amount were payable to previous owners of shares and accounted as a decrease in the Retained earnings as a result of acquisition of controlling interests.

Cash flow hedge reserve

In April 2009 the Parent company entered into an interest rate swap agreement in respect of future payments of USD 109 million within the period 13 May 2009 till 12 November 2013 for the purposes of hedging future interest payments under the long-term loan agreement with LIBOR floating interest rate from State Corporation Vnesheconombank (see Note 20 (iii)). The payment period according to the agreement is six months; the first repayment date is 12 November 2009. For the year 2011 the net gain on the above hedge transactions was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to RUR 1 million (for the year 2010: the net loss in the amount of RUR 95 million, net of tax RUR 23 million). As at 31 December 2011 the loss on the above hedge transaction amounted to RUR 89 million, net of tax of RUR 22 million (as at 31 December 2010: the loss in the amount of RUR 90 million, net of tax of RUR 22 million, as at 1 January 2010: the gain in the amount of RUR 5 million, net of tax of RUR 1 million).

During the year 2010 the Parent company entered into a number of foreign currency forward contracts in order to hedge cash flows related to foreign currency sales denominated in Euro for the year 2011. As at 31 December 2010 the net gain on the above hedge transactions amounted to RUR 113 million, net of tax of RUR 28 million and was recognized in other comprehensive income of the consolidated statement of comprehensive income. During the year 2011 the accumulated hedge reserve was written-off through other comprehensive income of the consolidated statement of comprehensive income in the amount of RUR 113 million, net of tax RUR 28 million due to closing the forward contracts.

(in million of RUR)

18. Equity (continued)

Cash flow hedge reserve (continued)

During the year 2011 the Parent company entered into a number of foreign currency forward and option contracts in order to hedge cash flows related to foreign currency sales denominated in Euro for the year 2012. As at 31 December 2011 the net gain on the above hedge transactions in the amount of RUR 7 million, net of tax RUR 2 million was recognized in other comprehensive income of the consolidated statement of comprehensive income.

During the year 2010 and 2011 RAO Nordic Oy entered into electricity forward contracts in order to hedge cash flows associated with the electricity sales. For year 2011 the net gain on the above hedge transactions was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to RUR 1,641 million, net of tax RUR 553 million and exchange gain on translation to presentation currency RUR 14 million (for the year 2010: the loss in the amount of RUR 1,253 million, net of tax RUR 440 million). As 31 December 2011 the net gain on the above hedge transactions amounted to RUR 388 million, net of tax RUR 113 million and exchange gain on translation to presentation currency RUR 42 million (as at 31 December 2010: the loss in the amount of RUR 1,253 million, net of tax RUR 440 million).

Fair value reserve

For the year 2011 the net loss on the revaluation of available-for-sale financial assets was recognised in other comprehensive income of the consolidated statement of comprehensive income and amounted to RUR 319 million related to Shareholders of the Company (for the year 2010: the net gain in the amount of RUR 23 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 15 million and RUR 8 million, respectively). As at 31 December 2011 the accumulated revaluation reserve on the above transactions amounted to RUR 334 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 329 million and RUR 5 million, respectively (31 December 2010: accumulated revaluation reserve in the amount of RUR 15 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 10 million and RUR 5 million, respectively; 1 January 2010: accumulated revaluation reserve in the amount of RUR 38 million, related to Shareholders of the Company and non-controlling interest in the amount of RUR 25 million and RUR 13 million, respectively).

19. Earnings per share

The calculation of earnings per share is based upon the profit for the period and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The dilutive effect of outstanding options under option programme I (Note 33 (b)) as at 31 December 2010 is reflected as share dilution in the computation of diluted earnings per share. As at 31 December 2011 the antidilutive effects of the recognition of Put and Call option signed with SC Vnesheconombank (see Note 18), call option signed with JSC Mejregionenergostroy (see Note 18) and share-based option programme ii (see Note 33 (b)) are not included in calculation of diluted earnings per share.

	Year ended 31 December 2010 (restated)
Weighted average number of shares for basic earnings per share	**3,470,794,579,030**
Including effect attributable to the Group prior to the second share issue	2,508,397,473,863
Including effect attributable to retrospective consolidation of acquired entities under the second share issue	962,397,105,167
Effect of dilution:	
Share options	1,431,859,089
Weighted average number of shares adjusted for effect of dilution	**3,472,226,438,119**
Profit attributable to the shareholders of the Company	14,561
Basic earnings per ordinary share for profit attributable to the shareholders of the Company (RUR)	0.00420
Diluted earnings per ordinary share for profit attributable to the shareholders of the Company (RUR)	0.00419

	Year ended 31 December 2011
Weighted average number of shares - basic and diluted	**7,336,720,876,252**
Profit attributable to the shareholders of the Company	36,144
Earnings per ordinary share for profit attributable to the shareholders of the Company (RUR) – basic and diluted	0.00493

(in million of RUR)

20. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. Certain loan agreements include financial and non-financial covenants.

Loans and borrowings	***Currency***	***31 December 2011***	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Mejregionenergostroy JSC (v)	RUR	12,883	–	–
Gazprombank JSC	RUR	4,939	4,324	2,531
Alfa-Bank JSC	RUR	4,700	4,200	–
ROSSIYA JSC	RUR	3,000	1,000	–
Sberbank JSC	RUR	2,600	4,000	12,130
Vnesheconombank SC (iv)	RUR	2,133	2,449	3,948
UniCredit Bank CJSC	RUR	500	509	–
Transcreditbank JSC	RUR	–	3,800	1,600
ING Bank NV	RUR	–	2,833	2,833
Other		–	878	3,869
Total in RUR	**RUR**	**30,755**	**23,993**	**26,911**
Vnesheconombank SC (iii)[1]	USD	5,252	4,968	4,930
ING Bank NV (x)	USD	2,384	–	–
EBRD (vi)	USD	805	–	–
Ministry of Finance, Georgia (i,a-b)	USD	125	116	214
Other		219	962	3,164
Total in USD	**USD**	**8,785**	**6,046**	**8,308**
EBRD (vii)	EUR	1,516	1,700	655
Vnesheconombank SC (viii)	EUR	812	899	–
ROSSIYA JSC	EUR	625	605	–
SWEDBANK AB	EUR	505	–	–
Ministry of Finance, Georgia (i,c)	EUR	25	29	46
Other		–	164	324
Total in EUR	**EUR**	**3,483**	**3,397**	**1,025**
Government of Armenia (ii)	JPY	847	788	321
Government of Georgia	JPY	473	–	–
Total in JPY	**JPY**	**1,320**	**788**	**321**
Total in AMD	**AMD**	**–**	**–**	**107**
Total in GEL	**GEL**	**115**	**–**	**–**
Financial lease			–	–
Financial lease (ix)	RUR	823	1,040	1,364
Financial lease	USD	552	633	–
Financial lease	EUR	678	2	1
Total long-term borrowings		**46,511**	**35,899**	**38,037**
Less: current portion of long-term loans and borrowings and long-term financial lease		(1,997)	(3,301)	(4,659)
		44,514	**32,598**	**33,378**

[1] The Group hedged risks related to LIBOR floating interest rate of SC Vnesheconombank loan nominated in USD (see Note 18).

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rate

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Loans and borrowings with fixed interest rate			
RUR	6.85 - 10.10%	8.50 - 14.00%	10.5 - 19.5%
USD	8.00 - 20.00%	10.00 - 20.00%	10.00 - 20.00%
EUR	4.77% - 20.00%	7.50 - 20.00%	20.00%
JPY	11.20 - 18.00%	8.00%	11.10 - 12.60%
GEL	18.00%		0
Loans and borrowings with variable interest rate			
RUR	8.75%	5.49 - 15.40%	9.25 - 25.67%
USD	2.64 - 6.44%	6.44 - 6.62%	3.34 - 6.54%
EUR	5.04 - 8.54%	5.92 - 8.14%	14%
Financial lease			
RUR	4.55 - 13.76%	4.32 - 13.11%	12.6%
USD	15.40%	14.79%	9.00 - 16.00%
EUR	4.80 - 5.00%	4.90%	4.90%

The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

As at 31 December 2011 the estimated fair value of total non-current debts (including the current portion) was RUR 45,381 million (31 December 2010: RUR 35,634 million; 1 January 2010: RUR 37,948 million), which is estimated by discounting the future contractual cash flows at the estimated current market interest rates available to the Group for similar financial instruments.

(i) As at 31 December 2011 one of the Group entities, Mtkvari Energy LLC, had three loans of total carrying value of RUR 148 million obtained by the predecessor of this entity and acquired by the Group as a result of the acquisition of this entity in 2003.

Initially these loans were borrowed by the State of Georgia from international credit organizations (World Bank, EBRD and KfW) to rehabilitate certain generation assets and these loans were assigned to the predecessor of this Group entity in the course of privatization.

The loans currently are payable to:

(a) Ministry of Finance, Georgia (IDA/WB) – USD 36 million under contractual payment schedule from 2021 to 2072, interest rate 7%;

(b) Ministry of Finance, Georgia (EBRD) – USD 14.4 million under contractual payment schedule from 2021 to 2072, interest rate 8.2%;

(c) Ministry of Finance, Ministry of Fuel and National Bank, Georgia (KfW) – EUR 30 million under contractual payment schedule from 2021 to 2070, interest rate 0.75%.

All three loans have common provisions in relation to priority for the repayment of the loans, as follows:

- The entity is required to cover all current operational costs.
- The entity is required to repay the principal and related interest of a loan payable to the Parent company only up to a maximum aggregate principal amount of USD 50 million.
- The entity is required to repay the “Subordinated Liabilities”, i.e. the loans to the State of Georgia initially taken from the World Bank, EBRD and KfW stipulated above.
- The entity is required to repay all principal and interest repayments due on the loans payable to the Parent company above the USD 50 million aggregate principal cap set out in the second point above.

The Group considered the ability of Mtkvari Energy LLC to settle it’s existing and future liabilities in accordance with the above repayment priority and concluded that the repayment of these three loans will start not earlier than in 2021 with the last payment to be made in 2072. The amortised cost of these loans has been calculated by taking into account the future cash flows associated with the repayment of these loans, as assessed by the Group, and discounting them at a rate of 20%, approximating the equivalent market yield on loan borrowings by Mtkvari Energy LLC at the date of inception of these loans.

The Parent company is in process of certain master set-off arrangements with the Government of Georgia in order to settle loans from the Ministry of Finance by issuance of additional shares of JSC Telasi. The Parent company signed a memorandum of understanding regarding this matter on 27 December 2011.

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rate (continued)

When making the assessment of future cash flows the key assumptions were remeasured, this has led to changes in amortised value of the loans as at 31 December 2011. The Group recognised finance income RUR 4 million for the year ended 31 December 2011 and interest expense in respect of the amortization of the prior period discounting on the Mtkvari Energy LLC loans discussed above, in the amount of RUR 53 million for the year ended 31 December 2010.

(ii) The credit line of JPY 3,877 million with an interest rate of 1.8% was obtained for the purposes of financing the Armenian power system programme "Transmission and distribution of electricity network". The loan is to be repaid from 10 February 2009 to 10 February 2039. The loan is obtained in the form of consulting services and certain prepayments recorded by the company as construction in progress.

Since the interest rate stipulated by this loan was significantly lower than the market rates, initially the loan has been recorded at discounted amounts using market rates prevailing at the time of its initial recognition (8%). Further to initial recognition, the loan is to be carried at amortised cost, using the discount rate applied during its initial recognition.

(iii) As at 31 December 2011 the Group had a loan in the amount of USD 163 million with effective interest rate of 5.3% (for 2010 – 6.56%, for 2009 – 6.53%), which was obtained for the purpose of financing the purchase of Freecom Trading Limited – owner of 49% share in CJSC Moldavskaya GRES, investment in which was transferred to the Parent company in December 2011. The loan is to be repaid on 11 November 2015.

(iv) The loan equalled to RUR 2,133 million was obtained by the Group in March 2009, the effective interest rate equalled to 8.5% in 2011 (10.5% in 2010, 14% in 2009). The purpose of long-term loan is construction of second power generating block on Sochinskaya TPS, since the second half 2011 one of the JSC INTER RAO – Electric Power Plants branches. The loan is to be repaid on 29 September 2018.

In December 2011 in accordance with the new agreement the loans (iii) and (iv) were refinanced by one of the Group entities INTER RAO Credit B.V. As a result the interest rate on the loan (iii) has remained unchanged but the margin on the loan (iv) was reduced by 0,9%. The Parent Company act as guarantor under this agreement.

(v) On 23 June 2011 direct financing received from JSC Mejregionenergostroy for the purpose of construction of the second power generation block Kaliningradskaya TEC-2 (see Note 21) was novated into long-term loan agreement with the contractual interest rate equalled 0.83%. The loan was discounted using the effective interest rate of 9%; related discount in the amount of RUR 4,510 million was recognised within interest income. Interest expense (amortisation) was recognized in the amount of RUR 568 million. The body of loan and interest accrued for the whole period will be paid in 2015. In June 2011 all obligations related to loan were transferred to one of the Group entities CJSC Inter RAO UES Capital. The Parent Company act as a guarantor under agreement for transfer of obligations. In September 2011 the Group signed the addendum to the long-term loan agreement and entered into a call option with JSC Mejregionenergostroy (Note 18).

(vi) On February 2011 JSC Telasi obtained a loan from EBRD amounting to USD 25 million with the floating interest rate Libor+3.5%, for the continuation of financing the investment programme on rehabilitation of the electricity distribution low-voltage network system. The loan is to be repaid on 4 November 2020.The Parent Company acts as a guarantor under this agreement.

(vii) As at 30 April 2009 CJSC Elektricheskie seti Armenii obtained a loan amounting to EUR 42.0 million with the floating interest rate Libor + Margin for the purpose of financing the investment programme on rehabilitation and upgrading of the electricity distribution network system. In 2011 the margin was changed and it varies from 3.5% to 5.0%. The loan is to be repaid in October 2018. The Parent Company acts as a guarantor under this agreement.

(viii) As at 17 June 2009 CJSC Elektricheskie seti Armenii obtained a credit amounted to EUR 22.5 million with the floating interest rate Euribor+7.0% for the purpose of financing the investment programme on rehabilitation and upgrading of the electricity distribution network system. In the first half of 2011, in accordance with terms of agreement, the margin was changed to 5.0%. The loan is to be repaid in October 2018. As at 15 October 2009 the Parent company signed a guaranty agreement with the creditor according to which it carries the joint liability under the above loan agreement.

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rate (continued)

(ix) The financial lease liability nominated in RUR are mainly comprised by indebtedness to CJSC Busines-Aliance in the amount of RUR 773 million as at 31 December 2011 and represents finance lease liabilities for equipment for the second power generating block at Sochinskaya TPS, since the second half 2011 one of the JSC INTER RAO - Electric Power Plants branches. The power generating block was set into operation at the end of 2009 financial year. Under the terms of the lease agreement the lessor imposes all the costs arising from the change in floating interest rate (EURIBOR) and/or currency rate (SEK/EUR and RUR/EUR) JSC INTER RAO - Electric Power Plants.

(x) As at 23 September 2011 INTER RAO Credit B.V. obtained a loan from ING Bank N.V. equalled to USD 74 million at effective interest rate of 2.64%, for the purposes of financing an acquisition of JSC Khramesi GES I and JSC Khramesi GES II (see Note 5). The loan is to be repaid in September 2016. The Parent Company acts as a guarantor under this agreement.

In June 2010 JSC Stantsiya Ekibastuzskaya GRES-2 obtained two loans in the amount of USD 385 million and RUR 12,000 million from Eurasian Development Bank and SC Vnesheconombank maturing in 2025. The Company's shareholders issued guarantee to the banks at the amount of 50% of the two loans and the Company's Board of directors have pledged the shares of JSC Stantsiya Ekibastuzskaya GRES-2 as a collateral. The Company's liability under the guarantee and collateral is limited by 50% of the two loans obtained by the entity; the other 50% are to be guaranteed and collateralised in the same form by the other venturer - Samruk-Kazyna. As at 31 December 2011 no any amounts were obtained by JSC Stantsiya Ekibastuzskaya GRES-2 under these loan agreements.

Gross finance lease liabilities – minimum lease payments

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Less than one year	580	517	563
Between one and five years	1,901	1,599	1,115
After five years	7	12	193
	2,488	**2,128**	**1,871**
Future finance charges on finance leases	(435)	(453)	(506)
Present value of finance lease liabilities	**2,053**	**1,675**	**1,365**

The present value of finance lease liabilities is as follows:

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Less than one year	438	355	398
Between one and five years	1,611	1,310	767
After five years	4	10	200
	2,053	**1,675**	**1,365**

Maturity table:

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Due for repayment			
Between one and two years	10,245	5,767	6,915
Between two and five years	31,766	24,179	24,855
After five years	2,503	2,652	1,608
	44,514	**32,598**	**33,378**

Changes in interest rates impact loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favourable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject for confirmation by the Parent Company. Management applies the same policy in making decisions in respect of the conditions of raising loans and borrowings on the subsidiary level.

(in million of RUR)

20. Loans and borrowings (continued)

Effective interest rate (continued)

Current loans and borrowings and current portion of non-current loans and borrowings

	Effective interest rate	*31 December 2011*	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Current loans and borrowings	5.00 - 11.00%	1,358	2,428	7,722
Current portion of non-current loans and borrowings	5.04 - 18.00%	1,559	2,946	4,261
Current portion of finance lease liability	4.55 - 15.40%	438	355	398
Interest payable (incl. interest on short-term loans and short-term interest on long-term loans)		103	207	310
Total		**3,458**	**5,936**	**12,691**

As at 31 December 2011 bank loan from CJSC HSBC Bank Armenia is collateralised by properties with a carrying amount of RUR 33 million (31 December 2010: RUR 25 million; 1 January 2010: RUR 22 million) (see Note 6 (b).

The Group has the following undrawn borrowing facilities:

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Floating rate:			
Expiring within one year	7,520	6,798	9,509
Expiring beyond one year	11,500	6,050	8,300
	19,020	**12,848**	**17,809**
Fixed rate:			
Expiring within one year	2,376	4,219	8,599
Expiring beyond one year	18,676	6,475	4,106
	21,052	**10,694**	**12,705**
Total	**40,072**	**23,542**	**30,514**

21. Accounts payable and accrued liabilities

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Financial liabilities			
Trade payables	32,850	23,795	17,968
Short-term derivative financial instruments	93	1,750	75
Dividends payable	79	741	26
Other payables and accrued expenses	4,403	4,642	2,448
Total	**37,425**	**30,928**	**20,517**
Non-financial liabilities			
Direct financing	–	14,430	–
Advances received	14,026	9,436	9,049
Staff payables	3,183	1,994	1,169
Provision short-term	1,752	1,274	882
Total	**18,961**	**27,134**	**11,100**
	56,386	**58,062**	**31,617**

Short-term derivative financial instruments recognised as at 31 December 2011 include fair value of foreign currency forward contracts in the amount of RUR 83 million (31 December 2010: 41 million; 1 January 2010: nil) and foreign currency option contract in the amount of RUR 10 million (Note 18).

Short-term derivative financial instruments recognised as at 31 December 2010 include fair value of open electricity derivatives of RAO Nordic Oy for the purposes of hedging of future sales equaled to RUR 1,706 million (1 January 2010: RUR 75 million) and fair value of forward foreign exchange contract with expiry date 23 December 2011 to RUR 3 million (1 January 2010: RUR nil).

As at 31 December 2010 direct financing in the amount of RUR 14,430 million represented financing received from JSC “Mejregionenergostroy” for the purpose of construction of the second power generating block at Kaliningradskaya TEC-2 on behalf of that company under an investment agreement. On 23 June 2011 direct financing agreement was novated into long-term loan agreement (see Note 20, (v)).

(in million of RUR)

21. Accounts payable and accrued liabilities (continued)

As at 31 December 2011 other payables and accrued expenses comprised liability to FORTUM POWER AND HEAT OY on the purchase agreement of shares of JSC PSK (Group of companies) in the amount of RUR 1,140 million (as at 31 December 2010: RUR 1,272 miilion).

As at 31 December 2011 other payables and accrued expenses comprised current portion of liability of RAO Intertech B.V. for the contribution to the charter capital of RUS Gas Turbines Holding B.V. in the amount of RUR 583 million (see Note 22)

As at 31 December 2011 the amount of RUR 14,026 million of advances received is mainly related to sales electricity and represented by advances received from customers of JSC Mosenergosbyt (Group of companies), JSC PSK (Group of companies) and LLC RN-Energo.

Provisions, short-term mainly comprised of RUR 1,138 million (31 December 2010: RUR 1,138 million; 1 January 2010: nil) related to a claim brought against one of the Company's subsidiaries in respect of Russian legislation on completion. As of the date of authorization of these consolidated financial statements, the Group is in process of the court hearings.

Movements in short-term provisions are as follows:

	Provision for legal claims	*Provision for taxes*	*Other provisions*	*Total*
Balance at 1 January 2010 (restated)	**343**	**465**	**74**	**882**
Additions	1,169	–	119	1,288
Provision used during the year	(233)	–	(121)	(354)
Release of provision	(46)	(466)	(26)	(538)
Reclassification	–	–	(2)	(2)
Translation difference	(5)	1	2	(2)
Balance at 31 December 2010 (restated)	**1,228**	**–**	**46**	**1,274**
Balance at 1 January 2011 (restated)	**1,228**	**–**	**46**	**1,274**
Additions	188	174	227	589
Provision used during the year	(7)	–	(3)	(10)
Release of provision	(43)	(865)	–	(908)
Acquisition of subsidiaries	30	774	–	804
Disposal of subsidiaries	–	–	(1)	(1)
Translation difference	3	1	–	4
Balance at 31 December 2011	**1,399**	**84**	**269**	**1,752**

The release of provision for the year 2011 in the amount of RUR 319 million (for the year 2010: charge in the amount of RUR 750 million) was recognised in Other provisions within Operating expenses in consolidated statement of comprehensive income.

22. Other non-current liabilities

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Financial liabilities			
Long-term derivative financial instruments	6,054	124	3
Other long-term liabilities	554	134	67
Total financial liabilities	**6,608**	**258**	**70**
Non-financial liabilities			
Pensions liabilities	2,038	1,342	1,263
Advances received	2,453	–	–
Site restoration provision	559	289	282
Direct financing	–	–	9,402
Government grants	510	485	270
Unified social taxes payable on pension liabilities	179	–	–
Total non-financial liabilities	**5,739**	**2,116**	**11,217**
Total	**12,347**	**2,374**	**11,287**

(in million of RUR)

22. Other non-current liabilities (continued)

Long-term derivative financial instruments recognized as at 31 December 2011 in the total amount of RUR 6,054 million represent the fair value of interest rate swap of the Parent company for the purposes of hedging risks related to LIBOR floating interest rate of the loan received from SC Vnesheconombank nominated in USD in the amount of RUR 121 million (31 December 2010: RUR 124 million; 1 January 2010: RUR 3 million) (see Note 20) and call and put option agreement with SC Vnesheconombank signed by Parent company in the amount of RUR 5,933 million (see Note 12).

As at 31 December 2011 other long-term financial liabilities included RUR 542 million liability of RAO Intertech B.V. for the contribution to the charter capital of RUS Gas Turbines Holding B.V., the joint venture entity with General Electric and Rustechnologies in accordance with shareholders agreement dated 16 September 2011. The total contribution amount also included current portion in amount of RUR 583 million (see note 21).

As at 31 December 2011 advances received mainly comprised of advances in the amount of RUR 2,373 million received by Parent company from buyers of equipment in Ecuador and Venezuela (see Note 31).

Government grants mainly relate to the nominal interest loan received from Government of Armenia (see Note 20, (vi) and (vii)).

Site restoration provision liabilities relate to reclamation of land plots, used for ash dumps by coal powered plants of the Group. The Group has recognized an obligation to restore the disturbed plots, occupied by ash dumps, on expiration of their useful lives.

	2011	*2010 (restated)*
Site restoration provision as at 1 January	**289**	**282**
Acquisition of controlling interest	229	–
Unwinding of discount	25	6
Changes in estimates of existing obligations	16	1
Site restoration provision as at 31 December	**559**	**289**

The discount rates used to calculate the net present value of the future cash outflows relating to the land reclamation for the period since 1 January 2010 to 31 December 2011 were in range from 6.05% to 8.03% per annum.

The Group provides certain post-employment benefits to their employees in accordance with labour agreements. Post employment benefits consist of pension benefits via non state fund, lump sum payments at retirement and towards employees' jubilees, pension benefits to non-working pensioners-veterans and funeral compensation.

These benefits generally depend on the years of service, terminal salary and amount of benefits provided under labour agreements, The Group pays the benefits when they fall due for payment.

The tables below provide information about the liabilities related to pension and other post-employment benefits, plan assets and actuarial assumptions used for the current and previous year reporting periods.

Amounts recognised in the Consolidated Statement of financial position:

	31 December 2011	*31 December 2010*	*1 January 2010*
Present value of defined benefit obligations	2,512	1,952	1,271
Less: Fair value of plan assets	–	–	–
Deficit in plan	**2,512**	**1,952**	**1,271**
Net actuarial loss not recognised in the balance sheet	(85)	(164)	(80)
Unrecognised past service costs	(389)	(446)	72
Pension liabilities in the balance sheet	**2,038**	**1,342**	**1,263**

Amounts recognised in the Consolidated Statement of comprehensive income:

	Year ended 31 December 2011	*Year ended 31 December 2010*
Current service cost	123	52
Interest cost	186	112
Recognised actuarial loss	3	21
Recognised past service cost	18	224
Total	**330**	**409**
Curtailment and settlement gain	(28)	(23)
Disposal of pension plan (LLC RN–Energo)	–	(217)
Total	**302**	**169**

(in million of RUR)

22. Other non-current liabilities (continued)

Changes in the present value of the Group's defined benefit obligation and plan assets are as follows:

	31 December 2011	*31 December 2010*
Present value of defined benefit obligations as at the beginning of the period	1,952	1,271
Current service cost	123	52
Interest cost	186	112
Actuarial loss	(58)	253
Past service cost	(3)	596
Benefits paid	(146)	(90)
Curtailment and settlement gain	(24)	–
Gain on termination of a pension plan in a subsidiary (LLC RN-Energo)	–	(217)
Acquisition of Group entities	542	–
Other	(60)	(25)
Present value of defined benefit obligations as at the end of the period	**2,512**	**1,952**

Plan assets

	31 December 2011	*31 December 2010*
Employer contributions	146	90
Benefits paid	(146)	(90)
Fair value of plan assets as at the end of the period	–	–

Changes in the pension liabilities are as follows:

	31 December 2011	*31 December 2010*
Pension liabilities at start of the year	1,342	1,263
Net expense recognised in the Consolidated Statement of comprehensive income	302	169
Benefits paid	(146)	(90)
Acquisition of Group entities	540	–
Pension liabilities at end of period	**2,038**	**1,342**

Principal actuarial assumptions are as follows:

	31 December 2011	*31 December 2010*	*1 January 2010*
Discount rate	8.50%	9.00%	8.00%
Salary increase	7.50%	7.50%	5.00%
Inflation	6.00%	6.00%	7.00%
Mortality	Russian population mortality table 1998	Russian population mortality table 1998	Russian population mortality table 1998

Staff turnover was assessed using an experience-based model.

The Group's best estimate of contributions to be paid in next year-long period is RUR 147 million (31 December 2010: RUR 112 million).

Funded status of the pension and other post employment and long-term obligations as well as gains/losses arising from experience adjustments is as follows:

	31 December 2011	*31 December 2010*	*1 January 2010*
Defined benefit obligation	2,512	1,952	1,271
Plan assets	–	–	–
Deficit in plan	2,512	1,952	1,271
Experience adjustments on plan liabilities, gain/(loss)	(90)	(77)	(51)

(in million of RUR)

23. Taxes payable

	31 December 2011	31 December 2010 (restated)	1 January 2010 (restated)
Value added tax	4,077	2,692	991
Property tax	495	417	216
Fines and interest	38	103	178
Other taxes	617	502	721
	5,227	**3,714**	**2,106**

Included in value added tax payable is RUR 134 million of deferred VAT which only becomes payable to the authorities when the underlying receivables balances are either recovered or written off (31 December 2010: RUR 152 million; 1 January 2010: RUR 158 million).

24. Revenue

	The year ended 31 December 2011	The year ended 31 December 2010 (restated)
Electricity and capacity	517,277	445,211
Government Grants / Subsidies	18	96
Other revenue	18,949	19,079
	536,244	**464,386**

Electricity and capacity revenue includes RUR 15,152 million (RUR 11,969 million for the year ended 31 December 2010) revenue from sales to Nord Pool Spot, the Nordic power exchange.

25. Other operating income

	The year ended 31 December 2011	The year ended 31 December 2010 (restated)
Electricity derivatives	2,859	761
Penalties and fines	1,735	863
Income from sale of available for sale and held for sale investments (Note 11,16)	1,553	–
Rental income	383	349
Gain on termination of a pension plan in a subsidiary (LLC RN Energo)	–	217
Income from management and technical support	–	72
Other	1,245	842
	7,775	**3,104**

(in million of RUR)

26. Operating expenses

	The year ended 31 December 2011	*The year ended 31 December 2010 (restated)*
Purchased electricity and capacity	216,686	213,242
Electricity transmission fees	148,084	123,119
Fuel expense	77,239	47,663
Employee benefit expenses and payroll taxes	28,221	21,079
Impairment of available-for-sale financial assets	21,130	288
Depreciation of property, plant and equipment	12,503	7,045
Impairment of property plant and equipment - charge/(release)	3,758	(7,483)
Repairs and maintenance	3,699	3,814
Provision for impairment of account receivables	3,624	2,103
Other materials for production purposes	2,960	2,120
Agency fees	2,950	1,770
Taxes other than on income	2,816	2,406
Expenses from derivatives trading operations on the electricity market	2,312	1,562
Consulting, legal and auditing services	2,201	1,014
Water supply expenses	2,199	1,441
Operating lease expenses	2,154	2,881
Impairment of assets classified as held-for-sale	1,980	–
Thermal power transmission expenses	1,150	1,047
Transportation expenses	965	888
Insurance expenses	937	513
Security expenses	737	563
Communication services	572	533
Bank services	512	923
Amortisation of Intangible assets	494	383
Business trip and field travel expenses	490	316
Social Expenditure	469	469
Cost of equipment for resale	421	–
Loss on write-off of property, plant and equipment	394	176
Material expenses (office maintenance)	279	208
Write off of bad debt which was not previously provided	236	330
Fees and penalties, other than tax	172	330
Purchased Thermal Power	94	180
Impairment of goodwill	43	–
Impairment of Intangible assets	31	–
Depreciation of investment property	19	20
Loss from sale / disposal of Group entity	19	–
Other provisions (release)/charge	(199)	748
Impairment of Investment property (release)/charge	(93)	171
Other	6,244	6,443
	548,502	**438,305**

27. Finance income and expense

	The year ended 31 December 2011	*The year ended 31 December 2010 (restated)*
Finance income		
Interest income	7,871	524
Dividend income	881	–
Foreign currency exchange gain, net	151	–
Other finance income	196	520
	9,099	**1,044**

	The year ended 31 December 2011	*The year ended 31 December 2010 (restated)*
Finance expenses		
Interest expense	3,224	3,793
Foreign currency exchange loss, net	–	423
Put and Call option agreements	10,826	1,429
Other finance expenses	367	124
	14,417	**5,769**

(in million of RUR)

27. Finance income and expense (continued)

Discounting effect on the long-term loan agreement with JSC Mejregionenergostroy (see Note 20(v)) in the amount of RUR 4,510 million was recognized within interest income and RUR 568 million within interest expense (unwinding of discount).

The amount of RUR 8,474 million for the year ended 31 December 2011 (RUR 1,429 million for the year ended 31 December 2010), included into Put and Call option agreements, is related to recognition of fair value of the call and put option agreement with SC Vnesheconombank signed in June 2010 (see Note 18).

The amount RUR 2,352 million for the year ended 31 December 2011 (for the year ended 31 December 2010: nill), included into Put and Call option agreements, is related to recognition of fair value of the call option agreement with JSC Mejregionenergostroy signed in September 2011 (see Note 18).

28. Income tax expense

	The year ended 31 December 2011	***The year ended 31 December 2010 (restated)***
Current tax expense	6,162	3,902
Deferred tax expense:	4,208	3,190
Amended tax declaration	(3)	–
Provision for income tax	–	(51)
	10,367	**7,041**

The Parent Company's applicable tax rate is the corporate income tax rate of 20% (31 December 2010: 20%). The income tax rate in Finland is 26% (31 December 2010: 26%), in Georgia is 15% (31 December 2010: 15%), in Lithuania is 15% (31 December 2010: 20%) in Armenia is 20% (31 December 2010: 20%), in Kazakhstan 20% (31 December 2010: 20%). The tax system in Transdniestria Republic, Moldova, where Moldavskaya GRES operates, is based on revenue at a rate of 3.0% (31 December 2010: 3.8%).

In accordance with tax legislations, tax losses in various Group companies in the countries where they operate may not be offset against taxable profit of other Group companies. Accordingly, profit tax may accrue even where there is a net consolidated tax loss.

Profit before tax for financial reporting purposes is reconciled to profit tax expenses as follows:

	The year ended 31 December 2011	***The year ended 31 December 2010 (restated)***
Profit before profit tax	(51,822)	(25,679)
Theoretical profit tax charge at 20%	10,364	5,136
Effect of different tax rates	(647)	(346)
Effect of different tax base (Moldavskaya GRES)	180	224
Tax effect on recognition of call and put options, novation agreement and option programme	1,781	815
Utilisation of previously unrecognised tax losses	310	(7)
Tax effect of items which are not deductible or assessable for taxation purposes, net	659	593
Effect from acquisition of controlling interest	(8,864)	(9)
Provision for income tax	–	(51)
Recognition of previously unrecognised deductible temp. diff.	126	(4)
Effect from acquisition of available-for-sale financial assets and assets classified as held-for-sale (including impairment)	8,314	–
Effect from revaluation (OJSC Bashkirenergo) - see Note 9	(2,845)	–
Other	989	690
Income tax expense	**10,367**	**7,041**

Effect from acquisition of controlling interest in the amount of RUR 8,864 million relates to deferred tax liability recognised for property, plant and equipment in JSC WGC-3 (see Note 5).

Effect from acquisition of available-for-sale financial assets and assets classified as held-for-sale consist of unrecognised deferred tax related to the acquisition of these investments in the amount of RUR 8,314 million.

(in million of RUR)

29. Financial instruments and financial risk factors

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rates risk and price risk), credit risk and liquidity risk. Risk management is carried out in accordance with a risk policy approved by the Management Board.

This risk policy provides written principles for overall risk management and policies for specific areas, such as foreign exchange risk, and credit risk. Management considers these measures as sufficient to control the risks within the Group's business activities.

Information on financial instruments in terms of categories is presented below:

31 December 2011	*Note*	*Loans and receivables*	*Derivatives used for hedging*	*Available for sale financial assets*	*Total*
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	11	–	–	40,651	40,651
Assets classified as held-for-sale	16	–	–	5,151	5,151
Derivative financial instruments	17	–	606	–	606
Trade and other receivables excluding prepayments	12,14	35,282	–	–	35,282
Restricted cash	17	259	–	–	259
Bank deposits with maturity exceeding 3 months	12,17	38,709	–	–	38,709
Promissory notes	17	2,865			2,865
Cash and cash equivalents	15	43,518	–	–	43,518
Total assets		**120,633**	**606**	**45,802**	**167,041**

31 December 2011	*Note*	*Liabilities at fair value through profit and loss*	*Other financial liabilities at amortised cost*	*Finance lease liabilities*	*Total*
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	20	–	45,918	–	45,918
Finance lease liabilities	20	–	–	2,053	2,053
Derivative financial instruments	21,22	6,147	–	–	6,147
Trade and other payables excluding taxes	21,22	–	37,886	–	37,886
Total liabilities		**6,147**	**83,804**	**2,053**	**92,004**

31 December 2010 **(restated)**	*Note*	*Loans and receivables*	*Derivatives used for hedging*	*Available for sale financial assets*	*Total*
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	11	–	–	202	202
Derivative financial instruments	12,17	–	2,724	–	2,724
Trade and other receivables excluding prepayments	12,14	38,543	–	–	38,543
Restricted cash	17	862	–	–	862
Bank deposits with maturity exceeding 3 months	17	1,275	–	–	1,275
Cash and cash equivalents	15	31,270	–	–	31,270
Total assets		**71,950**	**2,724**	**202**	**74,876**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

Financial risk factors (continued)

31 December 2010 **(restated)**	***Note***	***Liabilities at fair value through profit and loss***	***Other financial liabilities at amortised cost***	***Finance lease liabilities***	***Total***
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	20	–	36,859	–	36,859
Finance lease liabilities	20	–	–	1,675	1,675
Derivative financial instruments	21,22	1,874	–	–	1,874
Trade and other payables excluding taxes	21,22	–	29,312	–	29,312
Total liabilities		**1,874**	**66,171**	**1,675**	**69,720**

1 January 2010 **(restated)**	***Note***	***Loans and receivables***	***Derivatives used for hedging***	***Available for sale financial assets***	***Total***
Assets as per consolidated statement of financial position					
Available-for-sale financial assets	11	–	–	132	132
Trade and other receivables excluding prepayments	12,14	23,890	–	–	23,890
Restricted cash	17	267	–	–	267
Bank deposits with maturity exceeding 3 months	17	730	–	–	730
Cash and cash equivalents	15	14,709	–	–	14,709
Total assets		**39,596**	**–**	**132**	**39,728**

1 January 2010 **(restated)**	***Note***	***Liabilities at fair value through profit and loss***	***Other financial liabilities at amortised cost***	***Finance lease liabilities***	***Total***
Liabilities as per consolidated statement of financial position					
Borrowings (excluding finance lease liabilities)	20	–	44,704	–	44,704
Finance lease liabilities	20	–	–	1,365	1,365
Derivative financial instruments	21,22	78	–	–	78
Trade and other payables excluding taxes	21,22	–	20,509	–	20,509
Total liabilities		**78**	**65,213**	**1,365**	**66,656**

(a) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will not be able to pay amounts due in full when due. Credit risk is managed on a Group basis, as well as at the level of a particular Group entity. Financial assets which are potentially subject to credit risk are presented in the table below net of an allowance for impairment provision and consist principally of trade and other receivables.

The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group's current arrangements include assessing the customers' financial position, past experience and other relevant factors. The carrying amount of trade and other receivables, net of the allowance for impairment provision, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic and other factors, management believes that there is no significant risk of loss to the Group beyond the impairment provision already recorded.

Cash is placed in financial institutions, which are considered to have minimal risk of default. Despite the fact that certain banks do not have international credit ratings (see Note 15) they are considered as reliable counterparties that have stable positions in the financial market of the Russian Federation or the other countries in which the Group entities operate.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(a) Credit risk (continued)

As at 31 December 2011 receivables potentially involving credit risks for the Group consisted mainly of trade receivables in the amount of RUR 28,384 million (31 December 2010: RUR 27,845 million; 1 January 2010: RUR 19,030 million), and other receivables in the amount of RUR 6,898 million (31 December 2010: RUR 10,698 million; 1 January 2010: RUR 4,860 million). The total sum of receivables as at 31 December 2011 was RUR 35,282 million (as at 31 December 2010: RUR 38,543 million; 1 January 2010: RUR 23,890 million).

The Group's general objective for managing credit risk is to ensure continuous revenue collection and stable cash inflow as well as efficient financial asset utilization.

Being mainly linked to trade receivables, the Group's exposure to credit risk is generally affected by quality of such debtors. It is considered, that business activities among the diverse entities within the Group differ. Consequently credit risks are specific for the different types of trade receivables (Residential Sector, Wholesale trading etc.).

Due to the impracticability of determining independent credit ratings for each of its customers and trade partners, as well as taking into account the dissimilarity between different groups of them, the Group assesses credit risks allied with trade receivables based upon particular precedent experience and business relationship supported by other factors.

In order to obtain better credit risk monitoring the Group has classified its receivables according to its own understanding of their credit risk rate. The Group makes sure that the provision for impairment of accounts receivable reflects the credit risk classification in order to consistently grade and treat different groups of receivables in a similar manner.

As at 31 December 2011	*Nominal value*	*Provision for impairment of accounts receivable*	*Carrying amount*	*Share in total, %*
A	27,233	–	27,233	**77%**
B'	2,178	(283)	1,895	**5%**
B''	4,882	(1,323)	3,559	**10%**
B'''	5,124	(2,672)	2,452	**7%**
C	10,422	(10,397)	25	**0%**
Loans issued to employees	264	(149)	115	**0%**
Related parties	3	–	3	**0%**
Total	**50,106**	**(14,824)**	**35,282**	**100%**

As at 31 December 2010 (restated)	*Nominal value*	*Provision for impairment of accounts receivable*	*Carrying amount*	*Share in total, %*
A	32,320	–	32,320	**84%**
B'	1,535	(216)	1,319	**3%**
B''	7,079	(2,608)	4,471	**12%**
B'''	383	(227)	156	**0%**
C	7,670	(7,604)	66	**0%**
Loans issued to employees	300	(176)	124	**0%**
Related parties	175	(88)	87	**0%**
Total	**49,462**	**(10,919)**	**38,543**	**100%**

As at 1 January 2010 (restated)	*Nominal value*	*Provision for impairment of accounts receivable*	*Carrying amount*	*Share in total, %*
A	18,943	–	18,943	**79%**
B'	1,886	(283)	1,603	**7%**
B''	3,714	(1,295)	2,419	**10%**
B'''	1,255	(734)	521	**2%**
C	6,722	(6,609)	113	**0%**
Loans issued to employees	321	(206)	115	**0%**
Related parties	176	–	176	**1%**
Total	**33,017**	**(9,127)**	**23,890**	**100%**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(a) Credit risk (continued)

The Group has applied three main Credit risk Classes – A (premium), B (medium), C (low-grade).

Class A – parties with stable financial performance who have rarely allowed delayed settlement or defaulted on their financial obligations towards the Group. The credit risk related to those entities and individuals is considered minimal. No provision has been applied for such receivables.

Class B – parties, whose capacity to clear their financial obligations towards the Group is to some extent affected by credit risk. This group is sequentially divided into three sub-classes:

Class B' – parties with satisfactory creditworthiness, where any delaying of payments has been only short-term and temporary in character, related agreements are put in place accordingly, credit risk related to those entities and individuals is considered low.

Class B'' – parties with poor creditworthiness, reasonably frequent delays in payments happen from time to time, there is reasonable uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered acceptable.

Class B''' – parties with unsatisfactory creditworthiness, frequent delay in payments happen or\and have systematic grounds (reasons), there is significant uncertainty regarding their capacity to clear their financial obligations towards the Group. The credit risk related to those entities and individuals is considered moderate.

The main reason behind dividing Class B into the three sub-classes is to develop a tool for more precise monitoring of the status of receivables and the outcome of credit risk-management measures employed.

Class C – parties with uncertain capacity to meet their financial obligations towards the Group. The credit risk related to those entities and individuals, mainly residential subscribers in the Russian Federation and Georgia, is considered high. The Group can not switch off the debtors or reject potential debtors of this class due to social and political reasons.

Policies and procedures to address credit risk-management include financial claims and court proceedings. Group entities also use a wide range of proactive credit risk-management procedures where they are possible considering the rules of national energy markets. Such procedures include preliminary credit risk-assessment before setting a contract or a deal.

There are number of debtors to which credit risk classification and policy are addressed on a specific basis. These are debts of entities under trust management (Khramesi I (till 31 March 2011), Khramesi II (till 31 March 2011), CJSC Armenian Nuclear Plant) and the loans issued to employees by Parent company. Management considers these debts as highly probable to be recovered.

(b) Market risk

(i) Foreign exchange risk

Individual subsidiaries and the Group as a whole, incur currency risk on sales, purchases and borrowings that are denominated in a currency other than functional currency of the specific subsidiary or the Parent Company. The currencies giving rise to this risk are primarily the USD and EUR. Since 2010 the Group started use forward contracts to manage the Group's foreign currency risks (see Note 17 and 21).

The Group has the following foreign-currency denominated financial assets and liabilities (these are disclosed on stand-alone basis inclusive of intercompany balances and exclusive receivables considered net investments and liabilities related to those assets):

At 31 December 2011	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	2,312	11,081	48	13,441
Bank deposits with maturity of 3-12 months	–	3,708	–	3,708
Cash and cash equivalents	819	2,166	3	2,988
Restricted cash	164	–	–	164
Derivative financial instruments (assets)	138	–	–	138
Loans and borrowings (excluding finance lease liabilities)	(4,978)	(17,567)	(1,329)	(23,874)
Finance lease liabilities	(1,424)	(552)	–	(1,976)
Derivative financial instruments (liabilities)	(92)	(121)	–	(213)
Trade and other payables (excluding taxes)	(1,146)	(850)	(220)	(2,216)
Net foreign currency position	**(4,207)**	**(2,135)**	**(1,498)**	**(7,840)**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(b) Market risk (continued)

At 31 December 2010 **(restated)**	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	5,077	5,037	32	10,146
Cash and cash equivalents	1,220	1,451	13	2,684
Restricted cash	168	–	–	168
Derivative financial instruments (assets)	183	–	–	183
Loans and borrowings (excluding finance lease liabilities)	(4,317)	(9,035)	(796)	(14,148)
Finance lease liabilities	(864)	(633)	–	(1,497)
Derivative financial instruments (liabilities)	(2,461)	(124)	–	(2,585)
Trade and other payables (excluding taxes)	(1,142)	(1,149)	(1,201)	(3,492)
Net foreign currency position	**(2,136)**	**(4,453)**	**(1,952)**	**(8,541)**

At 1 January 2010 **(restated)**	***EUR***	***USD***	***Other***	***Total***
Trade and other receivables (excluding prepayments)	2,522	8,571	410	11,503
Cash and cash equivalents	1,499	974	142	2,615
Restricted cash	117	–	–	117
Loans and borrowings (excluding finance lease liabilities)	(2,476)	(13,672)	(324)	(16,472)
Finance lease liabilities	(1,041)	–	–	(1,041)
Derivative financial instruments (liabilities)	–	(3)	–	(3)
Trade and other payables (excluding taxes)	(740)	(1,149)	(485)	(2,374)
Net foreign currency position	**(119)**	**(5,279)**	**(257)**	**(5,655)**

For the purposes of sensitivity analysis, management has estimated the reasonably possible changes in currency exchange rates based mainly on expectations as to the volatility of exchange rates. If the currency exchange rates had weakened/strengthened within the estimated levels (see table below), with all other variables held constant, the hypothetical effect on income and equity for the year ended 31 December 2011 would have been a profit RUR 153 million and loss RUR 369 million (for the year ended 31 December 2010: profit RUR 494 million and loss RUR 549 million) in accordance with positive and negative scenario, respectively.

At 31 December 2011	***USD /EUR***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	11.00%	(13.22)%	(3.68)%	5.38%	16.97%	(3.00)%	(6.35)%	3.95%	12.53%
Lower level	(11.00)%	14.81%	2.19%	(5.38)%	(15.79)%	3.57%	6.35%	(5.35)%	(11.03)%

At 31 December 2010	***USD /EUR***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	13.27%	(3.92)%	8.83%	(11.79)%	(0.08)%	(19.89)%	(7.18)%	5.13%	(4.96)%
Lower level	(7.17)%	(7.02)%	(13.69)%	14.47%	6.26%	24.84%	3.58%	(3.85)%	10.52%

At 1 January 2010	***USD /EUR***	***RUR /USD***	***RUR /EUR***	***AMD /USD***	***AMD /EUR***	***AMD /JPY***	***GEL /USD***	***GEL /EUR***	***GEL /AMD***
Upper level	(12.56)%	8.97%	(5.96)%	1.84%	(11.32)%	(5.68)%	(1.17)%	(13.63)%	2.34%
Lower level	1.95%	(12.32)%	(11.79)%	12.87%	14.59%	18.66%	6.82%	8.83%	4.94%

The expected deviations were based on the calculation of possible changes in exchange rates based on an analysis of recent trends.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(b) Market risk (continued)

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. 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). At the moment, the Parent Company has a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management applies the policy to determine whether a fixed or variable rate would be more favourable to the Company over the expected period until maturity. As for other entities of the Group, following the corporate regulative documents, the decisions on raising new loans and borrowings on the subsidiaries level are subject to confirmation by the Parent Company. Management applies the same policy in making decisions concerning the conditions of raising loans and borrowings subsidiaries.

Variable rate debt	***31 December 2011***	***31 December 2010 (restated)***	***1 January 2010 (restated)***
Libor	8,441	4,968	6,190
EURIBOR	3,032	2,599	655
CBR	2,133	2,449	2,457
MosPrime	–	3,711	2,834

The hypothetical effect on income/(loss) for the period due to the change in basis points in floating interest rates, with all other variables held constant:

	Probable deviation of LIBOR		***Probable deviation of MosPrime***	
Hypothetical effect on income/(loss) for year ended 31 December 2011	25 bp decrease	90 bp increase	–	–
	17	(61)	–	–
Hypothetical effect on income/(loss) for year ended 31 December 2010 (restated)	15 bp decrease	50 bp increase	80 bp decrease	255 bp increase
	6	(20)	24	(76)
Hypothetical effect on income/(loss) for year ended 1 January 2010 (restated)	105 bp decrease	105 bp increase	465 bp decrease	165 bp increase
	52	(52)	105	(37)

	Probable deviation of EURIBOR		***Probable deviation of CBR***	
Hypothetical effect on income/(loss) for year ended 31 December 2011	15 bp decrease	60 bp increase	25 bp decrease	100 bp increase
	4	(15)	4	(17)
Hypothetical effect on income/(loss) for year ended 31 December 2010 (restated)	5 bp decrease	85 bp increase	25 bp decrease	175 bp increase
	1	(18)	5	(34)
Hypothetical effect on income/(loss) for year ended 1 January 2010 (restated)	25 bp decrease	65 bp increase	380 bp decrease	380 bp increase
	1	(3)	75	(75)

(c) Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group seeks to adopt a prudent approach to liquidity risk management which implies holding a reasonable level of cash and maintaining the availability of funding through an adequate amount of committed credit facilities.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows translated at exchange rates as at the end of the reporting periods:

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	4,509	10,859	36,799	4,227	11,982	68,376
Trade and other payables	37,386	629	3	5	5	38,028
Finance lease payables	580	634	1,267	7	–	2,488
Derivative financial instruments obligations	93	121	5,933	–	–	6,147
Total at 31 December 2011	**42,568**	**12,243**	**44,002**	**4,239**	**11,987**	**115,039**

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	7,886	7,814	25,388	5,398	5,384	51,870
Trade and other payables	29,168	134	3	6	5	29,316
Finance lease payables	517	476	1,123	12	–	2,128
Derivative financial instruments obligations	1,750	–	124	–	–	1,874
Total at 31 December 2010 (restated)	**39,321**	**8,424**	**26,638**	**5,416**	**5,389**	**85,188**

	Less than 1 year	*Between 1 and 2 years*	*Between 2 and 5 years*	*Between 5 and 20 years*	*Over 20 years*	*Total*
Loans and borrowings	17,057	11,661	31,242	3,678	5,725	69,363
Trade and other payables	20,684	1	3	8	–	20,696
Finance lease payables	563	312	803	193	–	1,871
Derivative financial instruments obligations	75	–	3	–	–	78
Total at 1 January 2010 (restated)	**38,379**	**11,974**	**32,051**	**3,879**	**5,725**	**92,008**

(d) Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue operations on a going concern basis and to provide returns to shareholders as well as to maintaining a strong capital base to provide creditor's and the market with confidence in the Group.

The Company monitors capital on the basis of a number of ratios based on the statutory financial statements of JSC "INTER RAO UES" and the management accounts of its subsidiaries prepared according to statutory requirements. The Group analyses equity and debt financing (see Notes 18 and 20 respectively). As at 31 December 2011 the Group was in compliance with the gearing ratios imposed by loan agreements held with certain banks.

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

- share capital cannot be lower than 1,000 minimum wages at the date of the company registration;
- if share capital is greater than statutory net assets of the entity, then the share capital must be reduced to a value not exceeding net assets;
- if the minimum allowed share capital is greater than statutory net assets, then it is necessary to enter liquidation.

As at 31 December 2011, the Group entities registered in the Russian Federation were in compliance with the above share capital requirements.

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(e) Electricity derivatives

The Group is exposed to a financial risk in relation to electricity derivative instruments traded on NASDAQ OMX[1] by AO Nordic Oy. The Company has a risk policy in place to ensure that gains and losses on those derivatives are within acceptable limits. The Company accepts the risk related to open electricity derivatives with an aggregate amount of 80% the defined risk capital of EUR 5 million. The Company operates “stop loss” and “take profit” positions to limit potential losses and gains to EUR 2 million and EUR 4 million. If the limits are reached, all open risk positions must be closed and the loss or profit will be realised. Other procedures applied within the risk management measures are the setting of maximum volume of open positions on electricity derivatives and the use of valuation techniques of trading portfolio such as stress-test, Value-at-Risk, etc.

(f) Fair values

Fair value has been determined either by reference to the market value at the end of the reporting period or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for loans and borrowings. For loans and borrowings the fair value is disclosed in the Note 20.

Financial assets and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets and liabilities for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group’s own models whereby the majority of assumptions are market observable. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments and debt instruments. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Group. Therefore, unobservable inputs reflect the Group’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Group’s own data.

Determination of fair value and fair values hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

[1] Previously Nord Pool

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(f) Fair values (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2011	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Derivative financial instrument					
Forward foreign exchange contract	17	17	–	–	**17**
Foreign exchange option	17	121	–	–	**121**
Electricity derivative	17	468	–	–	**468**
Available-for-sale financial assets					
Quoted investment security	11	40,454	–	–	**40,454**
Assets classified as held-for-sale					
Quoted investment security	16	5,151	–	–	**5,151**
Financial assets held to maturity					
Long-term bank deposits	12	–	–	42	**42**
Total financial assets		**46,211**	**–**	**42**	**46,253**
Financial liabilities					
Derivative financial instruments					
Foreign exchange option	21	10	–	–	**10**
Forward foreign exchange contract	21	83	–	–	**83**
Interest rate SWAP	22	121	–	–	**121**
Financial liabilities designated at fair value through profit or loss					
Put and Call option agreement	22	–	5,933	–	**5,933**
Financial liabilities at amortised cost					
Loans and borrowings	20	–	45,381	–	**45,381**
Total financial liability		**214**	**51,314**	**–**	**51,528**

31 December 2010 (restated)	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Derivative financial instrument					
Forward foreign exchange contract	17	183	–	–	**183**
Available-for-sale financial assets					
Quoted investment security	11	76	–	–	**76**
Financial assets designated at fair value through profit or loss					
Put and Call option agreement	12	–	2,541	–	**2,541**
Total financial assets		**259**	**2,541**	**–**	**2,800**
Financial liabilities					
Derivative financial instruments					
Foreign exchange SWAP	21	3	–	–	**3**
Forward foreign exchange contract	21	41	–	–	**41**
Electricity derivative	21	1,706	–	–	**1,706**
Interest rate SWAP	22	124	–	–	**124**
Financial liabilities at amortised cost					**–**
Loans and borrowings	20	–	35,634	–	**35,634**
Total financial liability		**1,874**	**35,634**	**–**	**37,508**

(in million of RUR)

29. Financial instruments and financial risk factors (continued)

(f) Fair values (continued)

1 January 2010 (restated)	*Note*	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets					
Available-for-sale financial assets					
Quoted investment security	11	53	–	–	**53**
Total financial assets		**53**	**–**	**–**	**53**
Financial liabilities					
Derivative financial instruments					
Electricity derivative	21	75	–	–	**75**
Interest rate SWAP	22	3	–	–	**3**
Financial liabilities at amortised cost					
Loans and borrowings	20	–	37,948	–	**37,948**
Total financial liability		**78**	**37,948**	**–**	**38,026**

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs (Level 2) is represented by Put and Call option described in Note 18. Applied valuation techniques include Monte-Carlo simulation in the Black-Scholes framework, where underlying stock price follows Geometric Brownian Motion process with the drift corresponding to risk-free rates term structure. The model incorporates various inputs including stock pricing as at valuation dates, volatilities of shares and risk free rates.

As at the date of the first recognition of the Put and Call option – 18 June 2010 – the loss in amount of RUR 977 million was immediately recognized in profit and loss in the consolidated statement of comprehensive income as it was determined by use of a valuation technique in which all inputs include data from observable markets.

For the period starting from the date of the first recognition till 31 December 2010 the additional loss in the amount RUR 452 million was recognized in profit and loss in the consolidated statement of comprehensive income in accordance with the valuation technique.

During the year 2011 the loss in the amount RUR 8,474 million was recognized in profit and loss in the consolidated statement of comprehensive income.

As at 31 December 2011 market price of the shares equalled to RUR 0.03488 per share; as at the date of the first recognition – RUR 0.04770 per share. Put and call option price equalled to RUR 0.04609 and RUR 0.04381 per share respectively; as at the date of the first recognition – RUR 0.04020 and RUR 0.04209 per share respectively.

If the market price of the shares as at 31 December 2011 would have been a 10% higher or 10% lower, with all other variables held constant, the hypothetical effect on profit and loss for the year ended 31 December 2011 would have been an additional income and loss of RUR 1,846 million respectively.

30. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Less than one year	1,315	2,423	916
Between one and five years	1,689	1,850	1,012
Over five years	3,452	2,783	3,144
Total	**6,456**	**7,056**	**5,072**

The above table includes the Group's lease agreements relating to land plots owned by local governments. Land lease payments are determined by lease agreements. Lease agreements are concluded for different periods. Part of the lease contracts are concluded annually with the right of future prolongation.

During the year 2011 was recognised RUR 2,154 million in the consolidated statement of comprehensive income in respect of operating lease expenses (for the year ended 31 December 2010: RUR 2,881 million).

(in million of RUR)

31. Commitments

Investment and capital commitments

In accordance with the memorandum signed between the Group and the Government of Georgia in June 2007, the Group has to invest during the period from 1 January 2007 till 31 December 2015 USD 56.3 million in realisations of projects aimed at the improvement of the electricity network which belongs to the Group entity JSC Telasi. In March 2011 the additional memorandum was signed in accordance to which the investment commitments as at 31 December 2011 are as follows:

Year	***Investments, GEL million***
2012-2013	80.5
2014-2016	78.3
2017-2019	66.0
2020-2022	73.6
2023-2025	78.0

As at 31 December 2011 management considers that realisation of investment commitments was in line with schedule for the year 2011.

According to the above memorandum the Parent company is also committed to finance the construction a hydroelectric power plant (or number of hydroelectric power plants) with total capacity of 100 MW in Georgia. The power plant (plants) is to be built no later than 1 September 2015. It was also determined that starting from 1 September 2015 JSC Telasi is obliged to purchase within next 7 years the entire volume of electricity provided by the newly constructed plant. Provided that the possible increase of electricity purchase tariff for JSC Telasi should not negatively influence consumer tariffs. In case the power plant (plants) will not be put into operation before 1 September 2015 JSC Telasi will be obliged to purchase within next 7 years (starting from 1 September 2015) at least 15% of its total annual electricity purchase from hydro power plants or other power stations working on renewable energy sources which were put into operation in Georgia after 20 June 2007.

As at 31 December 2011 one of the Group entities JSC Electrolutch has short-term investment commitments to CJSC NT SMU-333 for reconstruction and renovation works of office buildings 2, 3 and 3a amounted to RUR 656 million. All reconstruction and renovation works are to be finished in July 2012.

In accordance with the privatization agreements, the shareholders of CJSC Moldavskaya GRES, a 100 percent-owned Group company acquired in 2005, have certain investment commitments. Fulfilment of these investment commitments in relation to CJSC Moldavskaya GRES are subject to annual approval by the authorised governmental body of Transdniestria Republic, Moldavia. As at 31 December 2011 the company is fully completed the investment programme, and remaining commitment are nil.

As at 31 December 2011 one of the Group jointly controlled entities JSC Stantsiya Ekibastuzskaya GRES-2 has contracted capital commitments for construction of block 3 amounted to RUR 1,321 million.

As at 31 December 2011 capital commitments on new entities which became subsidiaries of the Group as a result of placing additional shares of JSC INTER RAO UES are as follows.

Subsidiary	***RUR, million***
JSC WGC-3	43,180
JSC OGK-1	19,802
JSC TGK-11	4,949

Mentioned above commitments mainly comprise of contract liabilities in favour of JSC Technopromexport (JSC OGK-1) and JSC M-Aliance (JSC TGK-11) for construction of combined-cycle power plant. Capital commitments of JSC WGC-3 comprise of contracts with JSC Technopromexport on construction of block 8 and 9 of Cherepetskaya GRES, CJSC Atomstroyexport on construction of energy complex of Yuzhnouralskaya GRES-2 and GE PACKAGED POWER INC. for purchasing two gas-turbine power plant for installation at Djubginskoy TES.

In accordance with agreements signed by the Group, investment commitments of the Group in relation to branches of the Parent company in the Russian Federation amounted to RUR 341 million (31 December 2010: RUR 817 million, 1 January 2010: RUR 2,412 million).

(in million of RUR)

31. Commitments (continued)

Guarantees

The Group has the following guarantees at 31 December 2011:

- Guarantee to BNP Paribas S.A. in November 2010 the Group entered into Purchase Contract between Bariven, S.A (“Buyer”) and INTER RAO UES (“Seller”) for the purpose of sale and purchase of 13 Units of LM2500+G4 Gas Turbine Generator Package. The total amount of the contract is USD 309 million (or RUR 9,949 million at the CB RF exchange rate as of 31 December 2011) with an advance payment of 20% of total contract value or USD 62 million (or RUR 1,996 million at the CB RF exchange rate as of 31 December 2011) against the letter of Guarantee. The price per Unit is USD 23.8 million (or RUR 766 million at the CB RF exchange rate as of 31 December 2011). As a security for the due performance of Seller’s obligations under the Contract BNP Paribas S.A. issued the letter of Guarantee in the amount of 30% of the price per Unit or USD 7 million (or RUR 225 million at the CB RF exchange rate as of 31 December 2011). Both letters of guarantee issued by BNP Paribas S.A in favour of the Buyer. In connection with the letters of Guarantee INTER RAO UES entered into counter-guarantee agreement with VTB Bank JSC (hereafter referred to as “Bank VTB”) in favour of BNP Paribas S.A.
- Guarantee to Banco PICHINCHA C.A. In October 2010 the Group entered into Purchase and Installation Contract between HIDROTOAPI EP (“Buyer”) and INTER RAO UES (“Seller”) for the purpose of sale, purchase and installation of 7 Turbine Generator Blocks for hydroelectric project “Toachi-Pilation” in Ecuador. The total amount of the contract is USD 145 million (or RUR 4,668 million at the CB RF exchange rate as of 31 December 2011) with an advance payment of 20% of total contract value or USD 29 million (or RUR 934 million at the CB RF exchange rate as of 31 December 2011) against the letter of Guarantee. As a security for the due performance of Seller’s obligations under the Contract Banco PICHINCHA C.A. issued the letter of Guarantee in the amount of 5% of total contract value or USD 7 million (or RUR 225 million at the CB RF exchange rate as of 31 December 2011). Both letters of guarantee issued by Banco PICHINCHA C.A. in favour of the Buyer. In connection with letters of Guarantee INTER RAO UES entered into counter-guarantee agreement with Nordea Bank (hereafter referred to as “Nordea”) in favour of Banco PICHINCHA C.A.
- On 28 December 2009 one of the Group entities RAO Nordic Oy entered into a certain agreements for the purposes of ensuring its operations. As at 31 December 2011 the Parent company issued a financial guarantee to the amount of EUR 95 million (RUR 3,959 million) with an interest rate equalled to 16%. The Parent company acted as guarantor under this agreement.

Guarantees given under certain loans and borrowings agreements are disclosed in Note 20.

Restrictions imposed by the Federal Antimonopoly Service

The Federal Antimonopoly Service of the Russian Federation issued a number of restrictions related to acquisition of controlling and non controlling interest by the Group in 2011: trading restrictions related to JSC Tomskenergosbyt, JSC Bashkirenergo, JSC Volga TGC, JSC TGC-6, JSC Mosenergosbyt, JSC Saint-Petersburg Sale Company, JSC Saratovenergo, JSC WGC-3 and restrictions on the right of ownership for 4th years period related to JSC Kubanenergosbyt, JSC Tomskenergosbyt, JSC Bashkirenergo, JSC Volga TGC, JSC TGC-6, JSC Saratovenergo, JSC WGC-3. In compliance with the Federal Antimonopoly Service of the Russian Federation restrictions, in September – October 2011, the Group transferred for trust management 14.40% of ordinary shares of JSC Volga TGC, 1.09% of ordinary shares of JSC TGC-6, 1.66% of total shares of JSC Bashkirenergo and 6.28% of total shares of JSC Tomskenergosbyt. The Group is in compliance with the Federal Antimonopoly Service of the Russian Federation restrictions as of 31 December 2011 and subsequently.

32. Contingencies

(a) Political environment

The operations and earnings of Group entities continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in Russia, Georgia, Armenia, Moldavia (including Transdniestria Republic, unrecognized by international community), Lithuania and Kazakhstan.

(b) Insurance

The insurance industry in Russia and other CIS countries is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available.

In May 2008 management of the Parent Company has approved the main principles of a policy on insurance in relation to risks related to the Parent Company’s activities. The policy covers risks in relation to property aspects, activities of hydro-technical equipment and highly hazardous equipment.

(in million of RUR)

32. Contingencies (continued)

(b) Insurance (continued)

In 2010 the Board of Directors approved the new edition of the regulations on insurance protection of the Group, which establishes standards for insurance coverage and procedure for interaction between the Parent company and its subsidiaries and associates. Based on these regulations there have been developed the relevant regulations in key subsidiaries. Thus in 2010 the Group has adopted the unified corporate standards for the asset insurance coverage. Since 2011 the Groups' assets located on territory of the Russian Federation are been insured for its replacement value. Also since 2011 the Group regularly performs the technical risk assessment and valuation is in relation to the major assets, including foreign ones.

Since 2011 the Group started to insure Director's responsibility (Board members of the Parent company and certain Group companies), responsibility of the officials and certain Group companies to cover financial losses of the third parties.

(c) Litigation

Legal proceedings

In the normal course of business the Group is a party to legal actions. Other than as discussed below, management of the Group is unaware of any actual, pending or threatened claims as at the signing date of these financial statements, which would have a material impact on the Group.

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Subcontractors claims	95	3	461
Customer's complaints	52	9	270
	147	**12**	**731**

In customer's complaints as at 31 December 2011, 31 December 2010 and 1 January 2010 the Group had a number of legal claims the likelihood of which is not probable, but only possible, and, consequently, no provision has been made in the consolidated financial statements.

(d) Tax contingencies

The taxation systems in the Russian Federation and in other countries in which the Group operates are relatively new and characterised by frequent changes in legislation, official pronouncements and court decisions which are often unclear, 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 to five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganisation related to reforming of the electric utilities industry in the Russian Federation. As such there may be tax and legal challenges to the various interpretations, transactions and resolutions that were a part of the reorganisation and reform process.

These circumstances may create tax risks in the Russian Federation and in the other countries in which the Group operates 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 relevant 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.

The Parent Company and subsidiaries in the countries where they operate have various transactions with related parties. The pricing policy could give rise to transfer pricing risks. In management's opinion, the Group is in substantial compliance with the tax laws of the countries where Group companies operate. However, relevant authorities could take different positions with regard to interpretive issues or court practice could develop adversely with respect to the positions taken by the Group and the effect could be significant.

(in million of RUR)

32. Contingencies (continued)

(d) Tax contingencies (continued)

The Group includes a number of operating and investment companies located in a number of different tax jurisdictions across Europe and CIS. Those entities are subject to a complex variety of tax regimes and the nature of current and past trading and investment activities exposes them to areas of tax legislation involving considerable judgement and, consequently, uncertainty. The Group estimates that possible claims in respect of certain open tax positions of Group companies as at 31 December 2011 would be successfully challenged in the amount of RUR 464 million (as at 31 December 2010: RUR 1,406 million; as at 1 January 2010: RUR 240 million), out of which RUR 143 million relates to possible accrual of income tax on interest income of Inter RAO Holding B.V. regarding accounts receivable and loans given to its subsidiaries, RUR 134 million relates to water tax underpayment of JSC OGK-1, disputes with the tax authorities based on the results of the tax audit for 2008 and 2009 years..

As at 30 June 2011 WGC-3 assessed possible risk related to water tax underpayment up to the amount of RUR 1,345 million. Subsequent court proceedings which took place in 2011 and 2012 led to re-assessment of the risk of any additional water tax payments at 31 December 2011 as remote.

Current Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price deviates from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions and transactions with significant (by more than 20%) price fluctuations.

The current transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Company’s prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, it could have an adverse effect on the Company’s consolidated financial position and results of operations. The Company finances its subsidiaries by various means which may lead to transfer pricing tax risks. The Company’s management believes that the related tax positions are sustainable and will not have any significant negative impact on the Company's consolidated financial position or results of operations.

Effective 1 January 2012 the market price defining rules were changed and the list of entities that could be recognized as interdependent entities and list of managed deals were expanded. Due to above new rules, absence of law enforcement precedents, and certain contradictions of the new law, such new rules could not be considered as well defined. The Company’s management is in the process of developing a new approach to assess consequences of the new tax rules, to prevent substantial negative impact on the Company’s consolidated financial statements.

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation, Georgia, Armenia, Kazakhstan and Moldova for many years. The enforcement of environmental regulation in these countries is evolving and the enforcement posture of government authorities is continually being reconsidered. Group entities periodically evaluate their obligations under environmental regulations.

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

Site restoration provision liabilities relate to reclamation of land plots, used for ash dumps by generating entities, which use coal for production purposes (see Note 22).

(e) Ownership of transmission lines

The current legislation in Georgia is untested in relation to ownership issues with regard to line objects of real estate property, for example, the land over which one of the Group's entities (JSC Telasi) equipment for the transmission of electricity is located. On further clarification of the law, it is possible that JSC Telasi may be required to acquire ownership to certain land plots or to pay rentals to other parties for the use of certain land plots. JSC “Telasi” uses land plots owned by other parties for access to its network facilities which gives rise to servitude relationships with the owner of the land. Rapidly the changing circumstances in the real estate market of Georgia and certain claims that were raised in 2009 indicate that servitude in respect of rights may become chargeable for current and prior periods. At the date of approval of these financial statements, management considers that it is not possible to quantify any additional expense, if any, which JSC Telasi might incur and consequently, no provision has been made against such potential liabilities in the financial statements.

(in million of RUR)

33. Related party transactions

(a) Parent company and control relationships

The Russian Federation is the ultimate controlling party of JSC Inter RAO UES and has a controlling interest in the company of over 50%. Details of operations with entities controlled by the Russian Federation are provided in the note (d).

(b) Transactions with key management personnel

The members of the Management Board own 0.028% of the ordinary shares of JSC INTER RAO.

Compensation paid to key management and members of the Board of Directors for their service in that capacity is made up of contractual salary and performance bonuses. Key management and members of the Board of Directors received the following remuneration during the year, which is included in wages, benefits and payroll taxes (see Note 26):

	The year ended 31 December 2011	*The year ended 31 December 2010 (restated)*
Salaries and bonuses	391	554
Employee's Share Option Programme	–	1,116
	391	**1,670**

Employee's Share Option Programme. In June 2008 and December 2010 the Company's Board of Directors approved the creation of a Share Option Programmes for the Company (hereinafter referred to as "the Programme (i)" and "the Programme (ii)" correspondingly) in which members of the Management Board and other key employees of the Group were to be participants (hereinafter referred to as "the Programme participants").

For both Programmes the number of shares, which the Programmes participants may purchase within the framework of the Programme, is calculated proportionally based on the number of days worked prior to terminating the employment provided that termination meets certain conditions of Labour Code or in full amount based on decision of Chairman of the Board. In the case of breaching certain defined provisions of the labour agreement and terminating employment at the initiative of the Group the Programme participants will lose their right to purchase the shares.

Programme (i)

Participation in the Programme (i) and the exact number of shares in the participants' individual share option agreements are determined by decision of Board of Directors of the Company. On 21 September 2009 the Company's Board of Directors approved the final form and conditions of the Programme (i). These stipulated exact number of shares to which Programme participants were entitled and their fixed exercise price.

Corresponding agreements with determined share price and quantity were signed by Programme participants immediately after that date.

A total of up to 46,000,000,000 ordinary shares were allocated under the Programme (i). 23,000,000,000 ordinary shares were allocated for granting share options to the members of the Company's Management Board, the remaining - to other key employees of the Group. The ordinary shares ultimately allocated under the Programme (i) were allocated from treasury shares obtained by JSC INTER RAO Capital operator of the Programme (i). The Programme participants could exercise the share option at any time over the period from 23 June 2010 through 23 May 2011. During the year ended 31 December 2011 1,683,880,021 of share options were exercised and cash proceeds for the Group amounted to RUR 12 million.

Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme (i)	*Attributed to members of Management Board*
Number of options as at 1 January 2010	**46,000,000,000**	**23,000,000,000**
Options distributed in 2010	(44,316,119,979)	(23,000,000,000)
Number of options as at 31 December 2010	**1,683,880,021**	**–**
Options distributed in 2011	(1,647,564,472)	–
Options forfeited in 2011	(36,315,549)	–
Number of options outstanding as at 31 December 2011	**–**	**–**

(in million of RUR)

33. Related party transactions (continued)

(b) Transactions with key management personnel (continued)

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes model.

	31 December 2011	*31 December 2010 (restated)*
Weighted average price (RUR)	0.0368	0.0486
Expected volatility	110.59%	110.59%
Option life, days	608	608
Risk-free interest rate	10.05%	10.05%
Fair value of the option at measurement date (in RUR)	0.022703211	0.022703211

Programme (ii)

Participation in the Programme (ii) and the exact number of shares in the participants' individual share option agreements are determined by decision of Board of Directors of the Company. In 2011 the Company's Board of Directors approved the final form and conditions of the Programme (ii). These stipulated exact number of shares to which Programme participants were entitled and their fixed exercise price.

The Programme participants could exercise the share option at any time over the period in 2013 - 2015.

Changes in the amounts of options granted are described in the table below:

	All options granted under the Programme (ii)	*Attributed to members of Management Board*
Number of options as at 31 December 2010		
Options agreements signed in 2011	126,763,437,501	65,583,000,000
Number of options outstanding as at 31 December 2011	**126,763,437,501**	**65,583,000,000**

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of the share options granted. The estimate of the fair value of the services received is measured based on the Binomial model.

	31 December 2011
Weighted average price (RUR)	0.0368
Expected volatility	40.00%
Option life, years	3,9
Risk-free interest rate	6.60%
Fair value of the option at measurement date (in RUR)	0.013601241

To determine volatility the Group used the historical volatility of the share prices of its publicly traded shares. For the year ended 31 December 2011 the Group recognised a loss of RUR 1,134 million within employee benefit expenses in the consolidated statement of comprehensive income related to the fair value of the options agreements signed (for the year ended 31 December 2010 the Group recognised a loss of RUR 105 million).

To implement the Share Option Programme (ii) the company issued interest-free loans to key-management, as at 31 December 2011 discount amount of the loans is equal RUR 37 million (as at 31 December 2010: nil).

(in million of RUR)

33. Related party transactions (continued)

(c) Transactions with associates and jointly controlled entities

Detail list of the Group's jointly controlled entities and associates is disclosed in Note 9. The sales to and purchases from jointly controlled and associates are made at terms equivalent to those that prevail in arm's length transactions.

The Group's transactions with associates and jointly controlled entities are disclosed below.

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Revenue:		
Jointly-controlled entities	577	21
Associate	–	–
Other operating income:		
Jointly-controlled entity	3	1
Associate	17	11
Interest income:		
Jointly-controlled entity	36	–
Associate	–	–
Dividend income:		
Jointly-controlled entity	367	78
Associate	–	–
	1,000	**111**
Purchased power:		
Jointly-controlled entity	45	579
Associates	–	–
Purchased capacity:		
Jointly-controlled entity	342	419
Associates	–	–
Other expenses:		
Jointly-controlled entity	487	12
Associates	–	–
Interest expenses:		
Jointly-controlled entity	–	1
Associates	15	–
	889	**1,011**
Capital expenditures		
Jointly-controlled entity	1,746	–
Associates	–	–

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Accounts receivable:			
Jointly-controlled entities	727	5	33
Associates	239	–	–
Loans issued:			
Jointly-controlled entities	416	190	6
Accounts payable:			
Jointly-controlled entities	199	1	–
Associates	17	–	–

(in million of RUR)

33. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation

Information on transactions with entities controlled by the Russian Federation presented below:

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Revenue:		
Electricity and capacity	135,428	164,878
Other revenues	874	2,960
Other operating income	135	359
	136,437	**168,197**
Operating expenses		
Purchased power and capacity	57,734	89,554
Transmission fees	139,910	114,025
Fuel expense (gas)	24,056	9,674
Fuel expense (coal)	189	–
Other purchases	36	26
Other expenses	6,285	4,960
	228,210	**218,239**
Capital expenditures	**1,265**	**1,274**

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Income and expenses:		
Interest income	(586)	(78)
Discounting effect on the long-term loan (Note 27)	(4,510)	–
Other finance income	(31)	(120)
Dividend income	(118)	–
Interest expenses	1,563	1,985
Put and Call option agreements (Note 27)	10,826	1,429
	7,145	**3,216**

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Other non-current assets and liabilities:			
Long-term derivative financial instruments – assets (Note 12)	–	2,541	–
Long-term derivative financial instruments – liabilities (Note 22)	6,054	–	–

	31 December 2011	*31 December 2010 (restated)*
Investment to other non-current assets	662	4,877

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Other non-current assets	–	–	1,985
Other current assets	–	275	–

(in million of RUR)

33. Related party transactions (continued)

(d) Transactions with entities controlled by the Russian Federation (continued)

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Long-term accounts receivable:			
Other account receivables	27	2,811	12
Less impairment provision	(22)	(20)	(2)
Other receivables - net	**5**	**2,791**	**10**
Short-term accounts receivable:			
Trade accounts receivable gross	12,268	13,743	7,986
Less impairment provision	(6,058)	(4,036)	(2,172)
Trade receivables – net	**6,210**	**9,707**	**5,814**
Advances issued	434	699	331
Advances issued for capital construction	208	437	1,023
Dividend received	–	–	–
Other receivable	461	3,843	1,136
	7,313	**14,686**	**8,304**

	31 December 2011	*31 December 2010 (restated)*	*1 January2010 (restated)*
Accounts payable:			
Trade accounts payable	7,498	12,505	9,082
Payables for capital construction	1,203	35	526
Other accounts payable	303	1,149	750
Advances received	3,741	2,353	2,426
Direct financing (see Note 21, 22)	–	14,430	9,402
	12,745	**30,472**	**22,186**

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Loans and borrowings payable:			
Short-term loans	1,134	1,226	5,271
Long-term loans	23,246	15,935	21,338
Interest on loans	30	127	167
	24,410	**17,288**	**26,776**

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Cash and cash equivalents	1,821	3,007	3,424

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Other current assets (bank deposits)	12,698	4	866

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Financial transactions:		
Loans and borrowings received	13,404	17,935
Loans and borrowings repaid	(19,290)	(27,431)

In July 2011 subsidiary of JSC INTER RAO UES entered into an agreement with a state-controlled company for sale of electric power under the "take-or-pay" arrangement on standard commercial terms through 30 June 2026. The sales to and purchases from enterprises controlled by the Russian Federation are made at terms equivalent to those that prevail in arm's length transactions.

(in million of RUR)

33. Related party transactions (continued)

(e) Transactions with other related parties

The sales to and purchases from other related parties are made at terms equivalent to those that prevail in arm's length transactions. Amounts of transactions with other related parties (except for those controlled by the Government of the Russian Federation, equity investees and joint ventures), for each of the reporting periods ending 31 December, as well as related party balances as at 31 December 2011, 31 December 2010 and 1 January 2010 are provided below:

	Year ended 31 December 2011
Revenue:	
Electricity and capacity	2,155
Other operating income	57
Dividends received	222
	2,434
Operating expenses	
Purchased electricity and capacity	1,905
	1,905

	31 December 2011
Short-term accounts receivable:	
Trade accounts receivable	**104**
Short-term accounts payable:	
Trade accounts payable	**332**

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Loans and borrowings payable:			
Long-term loan received	3,000	1,605	–
Short-term loan received	625	–	–

	31 December 2011	*31 December 2010 (restated)*	*1 January2010 (restated)*
Cash and cash equivalents:			
Current accounts balances	1,638	264	–

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Income and expenses:		
Interest expenses	203	139

34. Entities under trust management

The entities under trust management of the Group are disclosed in the table below:

	Country of incorporation	*31 December 2011 % of voting shares*	*31 December 2010 % of voting shares (restated)*	*1 January 2010 % of voting shares (restated)*
Generating entities				
JSC Khramesi I *	Georgia	–	100%	100%
JSC Khramesi II *	Georgia	–	100%	100%
CJSC Armenian nuclear power station	Armenia	100%	100%	100%

* The voting shares of the entities were under trust management before 31 March 2011.

(in million of RUR)

34. Entities under trust management (continued)

These entities were not consolidated in these financial statements while being in trust management. The Group's transactions with the entities under trust management are disclosed below.

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Revenue:		
Electricity and capacity	43	32
	43	**32**

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Other income:		
Other operating income	1	6
	1	**6**

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Purchases:		
Purchased power and capacity	1,666	1,744
	1,666	**1,744**

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Expenses:		
Other operating expenses	–	88
	–	**88**

	Year ended 31 December 2011	*Year ended 31 December 2010 (restated)*
Interest income and expense:		
Interest income	2	7
	2	**7**

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Accounts receivable:			
Trade accounts receivable	3	5	4
Loans issued	–	47	39
Other receivable	–	43	133
	3	**95**	**176**

	31 December 2011	*31 December 2010 (restated)*	*1 January 2010 (restated)*
Accounts payable:			
Trade accounts payable	210	240	219
	210	**240**	**219**

(in million of RUR)

35. Significant subsidiaries

The principal subsidiaries consolidated in the Group's consolidated financial statements are disclosed in the table below:

	Country of incorporation	*31 December 2011 Ownership/voting*	*31 December 2010 Ownership/voting (restated)*	*1 January 2010 Ownership/voting (restated)*
Trading entities				
RAO Nordic Oy[1]	Finland	100.00%	100.00%	100.00%
UAB INTER RAO Lietuva[1]	Lithuania	51.00%	51.00%	51.00%
LLP Kazenergoresurs	Kazakhstan	100.00%	76.00%	76.00%
Distributing entities				
JSC Telasi	Georgia	75.00%	75.00%	75.00%
CJSC Elektricheskiye seti Armenii	Armenia	100.00%	100.00%	100.00%
Supply entities				
JSC Mosenergosbyt (Group of companies) (Note 2,5)	The Russian Federation	50.92%	50.92%	50.92%
JSC PSK (Group of companies) (Note 2, 5)	The Russian Federation	92.52%	88.27%	61.52%
JSC Tambov Energy Retailing Company (Note 2, 5)	The Russian Federation	59.38%	59.38%	49.01%
JSC Saratovenergo (Note 2, 5)	The Russian Federation	56.97%	56.97%	49.00%
JSC Altayenergosbyt (Note 2, 5)	The Russian Federation	100.00%	100.00%	100.00%
JSC Industrial Energetics (Note 5)	The Russian Federation	51.00%	75.00%	–
LLC RN – Energo (Note 2, 5)	The Russian Federation	100.00%	100.00%	100.00%
Generating entities				
Mtkvari Energy LLC	Georgia	100.00%	100.00%	100.00%
CJSC International Power Corporation (Note 5)	Armenia	–	90.00%	90.00%
CJSC Moldavskaya GRES	Moldova, Transdniestria Republic	100.00%	100.00%	100.00%
JSC INTER RAO - Electric Power Plants	The Russian Federation	100.00%	–	–
JSC Khramesi GES I (Note 5)	Georgia	100.00%	–	–
JSC Khramesi GES II (Note 5)	Georgia	100.00%	–	–
JSC OGK-1 (Group of companies) (Note 2, 5)	The Russian Federation	75.15%	74.17%	66.17%
JSC WGC-3 (Group of companies) (Note 5)	The Russian Federation	85.47%	–	–
JSC TGK-11 (Group of companies) (Note 2, 5)	The Russian Federation	67.71%	67.31%	64.25%
JSC RazTES (Note 2, 5)	Armenia	100.00%	100.00%	100.00%
Other entity				
CJSC INTER RAO UES Capital	The Russian Federation	100.00%	100.00%	100.00%
LLC RAO UES INTERNATIONAL FINANCE	The Russian Federation	100.00%	100.00%	100.00%
JSC Eastern energy company	The Russian Federation	100.00%	100.00%	100.00%
JSC Electrolutch (see Note 5)	The Russian Federation	98.03%	97.78%	97.78%
JSC United Energy Retailing Company (Note 2)	The Russian Federation	100.00%	100.00%	100.00%
INTER RAO Credit B.V.	Netherlands	100.00%	–	–

In July-August 2011, the Group has transferred 19% of ordinary shares of JSC OGK-1 and 18% of ordinary shares (effective interest 18.78%) of WGC-3 for trust management.

36. Events after the reporting period

1. Group structure

a. Acquisitions

On 25 January 2012, the Group acquired 0.1468% of ordinary shares in JSC Irkutskenergo for cash consideration RUR 157 million from third parties (see Note 16).

On 14 February 2012, the Group acquired 0.0036% of ordinary shares in JSC Volga TGC for cash consideration RUR 246 million from third parties.

On 2 March 2012, the Group acquired 51% of ordinary shares in JSC Dominanta – Energy and 51% of ordinary shares in JSC Dominanta – Management for total cash consideration RUR 250 million from the third parties. These companies form the engineering Group Dominanta, which specialises in the construction of distribution (i.e. localised) energy and electricity supply facilities.

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[1] RAO Nordic Oy and UAB INTER RAO Lietuva also act as a holding companies for certain Group entities.

(in million of RUR)

36. Events after the reporting period (continued)

1. Group structure (continued)

On 5 March 2012, the Group acquired 1.97% of ordinary shares in JSC Electrolutch as a result the Group became 100% shareholder of this entity.

On 2 April 2012, the Group acquired 100% stake for cash consideration RUR 45 million of LLC Invest Inform Project, which specialises on corporate information systems and technology consulting services.

As of the date of authorisation of these financial statements, the Group is in the process of assessing of the effect of these acquisitions on the Group's consolidated financial statements.

b. Disposals

On 23 January 2012, the Group sold 3.2599% of ordinary shares in JSC E.ON Russia (see Note 16) for cash consideration RUR 4,830 million to third parties. The stake has previously been acquired as part of the additional shares issue in 2011.

On 26 January 2012, the Group disposed of 3.04% of ordinary shares in JSC Fortum in order to settle the liability to FORTUM POWER AND HEAT OY under share-purchase agreement of JSC PSK (see Note 21).

On 13 and 14 February 2012, the Group sold 1,966 million of treasury shares in JSC WGC–3 for cash consideration RUR 1,877 million, as a result, the effective share of the Group changed to 81.93%.

On 12 March 2012, the Group signed the agreement for sale of 26.43% of ordinary shares in JSC Enel OGK-5 to the consortium of investors. Structure of the deal involves fixed cash consideration in the amount of USD 625 million and the Group's share in future income of JSC Enel OGK-5 distributed as a dividends for 2012-2014. The stake has previously been acquired as part of the additional shares issue in 2011 (Note 16).

In April 2012 the Parent company exercised its rights as provided under the Federal Law on Joint Stock Companies and disposed of its 1,97% shareholding in JSC Kuzbassenergo and 2.16% in JSC Yenisei TGC (TGC-13) for a total cash consideration of RUR 505 million within the reorganization procedures launched by these companies. The stakes were previously acquired by the Parent company as a part of the additional shares issuance in 2011 (Note 11).

Management considers that the effect of disposals is not significant for the consolidated financial statements of the Group.

c. Change in the Group's structure

On 15 March 2012, the Company's Board of Directors resolved to convene an Extraordinary General Shareholders Meeting to approve the following:

- Reorganisation of the Group by providing a transition to 100% Parent company's ownership of the Group's generating assets (JSC OGK-1 and JSC WGC -3 will be merged with JSC INTER RAO – Electric Power Plants).
- Reorganization of the Group through the acquisition of controlling interest in generating segment of associated company JSC Bashkirenergo. (Note 9)
- Additional share issue of 7.958 billion ordinary shares of the Parent company with nominal value RUR 0.02809767 each.

d. Transfer of shares for trust management

On 3 February 2012, the Group has transferred 0,4261% preference shares and 0.04% ordinary shares of total share capital of JSC Bashkirenergo and 6.9502% of ordinary shares of JSC Volga TGC under trust management agreement to CJSC ALOR INVEST. This trust management does not affect the Group's share and accounting of the above mentioned entities.

On 29 March 2012, the Group terminated the trust management agreement of shares of CJSC Armenian Nuclear Plant with the Ministry of Energy of Armenia.

(in million of RUR)

36. Events after the reporting period (continued)

2. Other

On 15 March 2012, the Fitch rating agency assigned the Company's shares with a global credit rating of BB+, outlook stable, on the global scale and AA (rus) on the national scale.

On 29 March 2012, NVGRES Holding Limited pledged shares of its 100% subsidiary, CJSC Nizhnevartovskaya GRES, as collateral to guarantee payment in accordance with long-term gas supply agreements in favour of TNK-BP Group. In addition, CJSC Nizhnevartovskaya GRES also pledged its movable and immovable property and land rights with the estimated value of RUR 4,988 million.