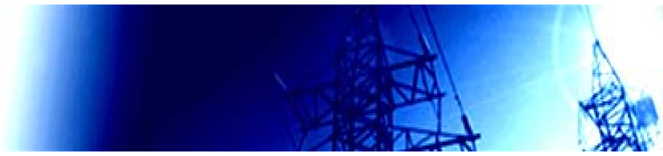

Interregional Distribution Grid Company of North-West and its subsidiaries

Consolidated Financial Statements
for the year ended 31 December 2011

Contents

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Independent Auditors' Report

Board of Directors

Open Joint Stock Company Interregional Distribution Grid Company of North-West

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG

6 April 2012

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

(in thousand of Russian roubles, except share and per share data)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Revenue:			
Power transmitting		26,769,046	22,901,315
Sale of electricity		5,190,137	4,699,421
Connection to power network		883,836	668,035
Other revenue		444,819	631,001
Total revenue		**33,287,838**	**28,899,772**
Government subsidies received		11,470	62,345
Expenses:			
Power transmitting services		(9,686,523)	(8,331,793)
Salaries and other personnel expenses	6	(8,542,416)	(7,084,209)
Electric power to cover losses		(3,407,182)	(3,874,292)
Depreciation, amortization and impairment of non-current assets		(2,884,305)	(2,576,826)
Electric purchases for resale		(2,521,686)	(2,463,706)
Raw materials used		(1,599,240)	(1,411,422)
Network and equipment repair services		(656,361)	(521,688)
Taxes other than income tax		(165,307)	(158,171)
Other services		(1,385,255)	(1,262,262)
Other operating expenses		(1,126,250)	(1,437,095)
Operating result		**1,324,783**	**(159,347)**
Other non-operating income, net		186,870	284,079
Finance costs, net	7	(258,594)	(397,451)
Profit/(loss) before income tax		**1,253,059**	**(272,719)**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 66

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

(in thousand of Russian roubles, except share and per share data)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Income tax expense	8	(450,875)	(39,992)
Profit /(loss) for the year		**802,184**	**(312,711)**
Other comprehensive income			
Changes in fair value of available-for-sale investments		(12,911)	5,456
Income tax on other comprehensive income/(loss)	8	106	(1,091)
Other comprehensive (loss)/income for the year, net of income tax		(12,805)	4,365
Total comprehensive income/(loss) for the year		**789,379**	**(308,346)**
Profit/(loss) attributable to:			
Equity holders of the Company		802,140	(312,725)
Non-controlling interests		44	14
		802,184	**(312,711)**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		789,335	(308,360)
Non-controlling interests		44	14
		789,379	**(308,346)**
Earnings/(loss) per share based on weighted average number of ordinary shares in issue			
Basic and diluted earnings/(loss) per share (expressed in RUB)		0.0082	(0.0033)
Weighted average number of ordinary shares in issue	16	95,785,923,138	95,785,923,138

General Director — Kukhmay A.M.

Chief Accountant — Maksimova T. V.

06 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 on pages 13 to 66

Consolidated Statement of Financial Position
as at 31 December 2011

(in thousand of Russian roubles)

	Notes	31 December 2011	31 December 2010
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	9	29,522,724	27,223,239
Intangible assets	10	36,882	57,163
Deferred tax assets	8	2,135	3,626
Investment in securities and other financial assets	11	121,221	161,507
Other non-current assets	12	633,766	700,627
TOTAL NON-CURRENT ASSETS		**30,316,728**	**28,146,162**
CURRENT ASSETS			
Accounts receivable and prepayments	13	4,313,488	4,191,680
Income tax receivable		234,612	66,802
Inventories	14	702,820	689,151
Other current assets		439,806	252,752
Assets classified as held for sale	21	-	980
Cash and cash equivalents	15	1,534,694	1,154,604
TOTAL CURRENT ASSETS		**7,225,420**	**6,355,969**
TOTAL ASSETS		**37,542,148**	**34,502,131**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 66.

Consolidated Statement of Financial Position
as at 31 December 2011

(in thousand of Russian roubles)

	Notes	31 December 2011	31 December 2010
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital	16	9,578,592	9,578,592
Retained earnings		1,553,642	751,502
Merger reserve	16	10,457,284	10,457,284
Other reserves		3,683	16,488
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY		**21,593,201**	**20,803,866**
Non – controlling interests		260	727
TOTAL EQUITY		**21,593,461**	**20,804,593**
NON-CURRENT LIABILITIES			
Long-term loans and borrowings	17	6,148,294	4,372,530
Retirement benefit obligations	18	1,352,999	1,313,833
Deferred tax liabilities	8	1,874,578	1,824,985
Other non-current liabilities	19	268,445	812,861
TOTAL NON-CURRENT LIABILITIES		**9,644,316**	**8,324,209**
CURRENT LIABILITIES			
Accounts payable and advances received	20	5,626,414	4,345,352
Current taxes payable		410,740	497,814
Income tax payable		395	154,161
Current loans and borrowings	17	80,190	308,069
Current provisions		186,632	64,758
Liabilities directly associated with assets classified as held for sale	21	-	3,175
TOTAL CURRENT LIABILITIES		**6,304,371**	**5,373,329**
TOTAL LIABILITIES		**15,948,687**	**13,697,538**
TOTAL EQUITY AND LIABILITIES		**37,542,148**	**34,502,131**

General Director — Kukhmay A.M.

Chief Accountant — Maksimova T. V.

06 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 on pages 13 to 66.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

(in thousand of Russian roubles)

	Attributable to equity holders of the Company						
	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
Balance at 01 January 2010	9,578,592	1,064,227	10,457,284	12,123	21,112,226	733	21,112,959
Total comprehensive income for the year							
Loss for the year	-	(312,725)	-	-	(312,725)	14	(312,711)
Other comprehensive income for the year	-	-	-	4,365	4,365	-	4,365
Total comprehensive loss for the year	-	(312,725)	-	4,365	(308,360)	14	(308,346)
Transactions with owners recognized directly in equity							
Dividends	-	-	-	-	-	(20)	(20)
Balance at 31 December 2010	9,578,592	751,502	10,457,284	16,488	20,803,866	727	20,804,593

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 66.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2011

(in thousand of Russian roubles)

	Attributable to equity holders of the Company						
	Share capital	Retained earnings	Merger reserve	Other reserves	Total	Non-controlling interests	Total equity
Balance at 01 January 2011	9,578,592	751,502	10,457,284	16,488	20,803,866	727	20,804,593
Total comprehensive income for the year							
Profit for the year	-	802,140	-	-	802,140	44	802,184
Other comprehensive income for the year	-	-	-	(12,805)	(12,805)	-	(12,805)
Total comprehensive income for the year		802,140		(12,805)	789,335	44	789,379
Transactions with owners recognized directly in equity							
Disposal of subsidiaries	-	-	-	-	-	(511)	(511)
Balance at 31 December 2011	9,578,592	1,553,642	10,457,284	3,683	21,593,201	260	21,593,461

General Director — Kukhmay A.M.

Chief Accountant — Maksimova T. V.

06 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 on pages 13 to 66.

Consolidated Statement of Cash Flows
for the year ended 31 December 2011
(in thousand of Russian roubles)

	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit / (loss) for the year	**802,184**	**(312,711)**
Adjustments for non-cash transactions:		
Income tax expense recognised in profit or loss	450,875	39,992
Net finance costs	258,594	397,451
Depreciation and amortisation of non-current assets	2,786,486	2,576,826
Loss on disposal of assets held for sale	1,843	-
Loss/(gain) from disposal of property, plant and equipment	18,036	(86,403)
Provision for inventory obsolescence	51,520	-
Impairment loss on property, plant and equipment	97,819	-
Other non-cash (gains)/losses	(5,107)	677
Cash flows from operating activities before changes in working capital and provisions	**4,462,250**	**2,615,832**
Change in accounts receivable and prepayments	678	713,352
Change in inventories	(65,189)	6,704
Change in other current assets	(187,054)	(131,504)
Change in retirement benefit obligations and related assets	19,410	(58,203)
Change in accounts payable, advances received and provisions	484,671	674,608
Cash flows from operations before income taxes and interest paid	**4,716,766**	**3,820,789**
Interest paid	(318,967)	(471,074)
Income tax (paid)/recovered	(721,261)	78,099
Net cash from operating activities	**3,674,538**	**3,427,814**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 13 to 66.

OJSC IDGC of North-West

Consolidated Statement of Cash Flows
for the year ended 31 December 2011
(in thousand of Russian roubles)

	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property, plant and equipment	49,766	86,057
Proceeds from disposal of assets held for sale	610	
Purchase of property, plant and equipment and other non-current assets	(4,908,459)	(2,840,653)
Interest received	20,948	8,831
Net cash used in investing activities	**(4,837,135)**	**(2,745,717)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans	5,958,317	9,723,954
Repayments of loans	(4,415,622)	(9,766,718)
Repayments of finance leases	-	(49,814)
Dividends paid	(8)	(4,122)
Net cash from/(used) in financing activities	**1,542,687**	**(96,700)**
Net increase in cash and cash equivalents	**380,090**	**585,397**
Cash and cash equivalents at 1 January (Note 15)	**1,154,604**	**569,207**
Cash and cash equivalents at 31 December (Note 15)	**1,534,694**	**1,154,604**

МРСК СЕВЕРО-ЗАПАДА

General Director — Kukhmay A.M.

Chief Accountant — Maksimova T. V.

06 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 on pages 13 to 66.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2011

1. THE GROUP AND ITS OPERATIONS

Background

Open Joint Stock Company Interregional Distribution Grid Company of North-West (the "Company") was established in December 2004 in accordance with the laws of the Russian Federation. The Company was formed during the process of re-organization of JSC "RAO UES of Russia" ("RAO UES") as the owner and operator of the electric power transmission and distribution grid in the North-West Region of Russia.

The registered office of the Company is Sobornaya str. 31, Gatchina, Leningradskaya oblast, 188300, the Russian Federation. The Company's main offices are at Constitution Square, building 3 "A", Saint Petersburg, 196247, the Russian Federation.

Formation of the Group

On 27 April 2007 the Board of Directors of RAO UES approved the structure of the Interregional Distribution Grid Companies. Under the approved structure, the Interregional Distribution Grid Company incorporated IDGC of North-West with seven branches, located in Arkhangelsk, Vologda, Syktyvkar, Novgorod, Pskov, Petrozavodsk and Murmansk and subsidiaries (the "Group"). The principal subsidiaries are listed in Note 4.

The branches were formed on the basis of seven Regional Distribution Grid Companies: JSC "Arkhenergo", JSC "Vologdaenergo", JSC "AEK Komienergo", JSC "Novgorodenergo", JSC "Pskovenergo", JSC "Karelenergo", JSC "Kolenergo", all of which were subsidiaries of RAO UES prior to the formation of the Group. The merger was a business combination among entities under common control, and has been accounted for using the predecessor accounting method (see Note 2).

On 1 July 2008 RAO UES ceased to exist as a separate legal entity and transferred its 55.4% of the Company's shares to JSC IDGC Holding, a state-controlled entity.

Relations with the state and current regulations

The Group's business is a natural monopoly which is under the influence of the Russian government. The government of the Russian Federation directly affects the Group's operations through state tariffs.

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

The Russian electric utilities industry in general and the Group in particular are presently undergoing a reform process designed to introduce competition into the electricity sector and to create an environment in which the Group could raise the capital required to maintain and expand current capacity.

Currently, the system of tariff setting of the Russian electric utilities industry is undergoing a reform process. The Regulatory Asset Base ("RAB") tariffs setting system is being implemented in the Russian Federation.

Russian business environment

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

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The Group companies maintain their accounting records in Russian Roubles ("RUB") in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared using the Group's statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

МРСК СЕВЕРО-ЗАПАДА

Basis of measurement

The consolidated IFRS financial statements are prepared on the historical cost basis except for investments available-for-sale that are stated at fair value; property, plant and equipment was revalued as of 1 January 2007 by an independent appraiser to determine deemed cost as part of the adoption of IFRSs.

Functional and presentation currency

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

Predecessor accounting

In 2008 the Group accounted for the merger with entities controlled by RAO UES as business combination among entities under common control in accordance with its accounting policy using the predecessor values method. Accordingly, assets and liabilities of the contributed entities were combined from the earliest period presented and accounted for at the carrying value, as determined by RAO UES in its IFRS consolidated financial statements.

The difference between the consideration paid and the predecessor carrying values of the net assets relating to the merger of the entities under common control is recorded in equity as a merger reserve.

Use of estimates

In the application of the Group's accounting policies, which are described in Note 3 below, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following areas.

Trade and other receivables

Accounts receivable are stated at their net realisable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the Group's best estimate of probable credit losses in the Group's existing accounts receivable balances. In estimating the allowance, management considers a number of factors including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance. Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required.

Useful economic life and residual value of property, plant and equipment

The estimated useful lives are based on management's business plans and operational estimates, related to assets.

The factors that could affect the estimation of a non-current asset's useful life and its residual value include the following:

- changes in asset utilization rates;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

Any of the above could affect the prospective depreciation of property, plant and equipment and their carrying and residual values.

At each reporting period end, management reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Taxation

The Group is subject to income tax and other taxes in the Russian Federation. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

In addition, the Group records deferred tax assets at each end of reporting period based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recognised in the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then all or part of the asset is derecognised, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the asset is recognised, with a corresponding credit to income.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Allowance for slow-moving inventory

The Group recognises an allowance for obsolete and slow-moving raw materials. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products, any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving raw materials.

In management's view there are no assumptions or estimation uncertainties that may have a significant risk of resulting in a material adjustment within the year after the reporting period.

Changes in accounting policies and presentation

With effect from 1 January 2011, the Group changed its accounting policies regarding disclosure of information about related parties.

From 1 January 2011 the Group has applied revised IAS 24 Related Party Disclosures (2009). As the Group is a government-related entity it applies the exemption on disclosure of information about transactions with entities that are related parties and which are under control, joint control or significant influence of the Government of the Russian Federation.

The Group disclosures share of sales to entities under control of the Russian Federation Government and share of key purchases from such entities as quantitative indications of related-parties transactions.

The comparative disclosures were changed retrospectively as if new policies had been applied since the beginning of the earliest period presented.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements consist of the financial statements of the Company and entities (including special purpose entities) controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date control commences until the date control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions and balances, and any unrealised income and expenses arising from intragroup transactions, are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests are measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in non-controlling interests having a deficit balance.

Acquisitions from entities under common control

A business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group is accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are revised. The assets and liabilities acquired are recognised at their carrying amounts in the financial statements of the entities transferred. If these companies previously have not prepared IFRS financial statements, assets and liabilities are determined in accordance with IFRS 1. Any difference between the book value of net assets acquired and consideration paid is recognised as a part of merger reserve in equity.

Disposals to entities under common control

Disposals of controlling interests in entities to the same controlling shareholder that controls the Company are accounted for at the date of transfer of shares from the Group. The assets and liabilities sold are derecognised at their book values as recognised in the financial statements of the Group. Any difference between the book value of net assets sold and consideration received is recognised as a contribution from, or a distribution to, shareholders.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each end of reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

Property, plant and equipment

Owned assets

Items of property, plant and equipment, except for land, are measured at historical cost (or deemed cost) less accumulated depreciation and impairment loss. Land is measured at cost less accumulated impairment loss. The deemed cost of property, plant and equipment of the branches, which were merged into the Group, was determined by reference to its fair value as at 1 January 2007, the date of transition to IFRS.

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

Items of property, plant and equipment transferred from customers or purchased using cash transferred from customers are measured at fair value on initial recognition.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net in “other non-operating income/expense” in the consolidated statement of comprehensive income.

Subsequent expenditure

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 replaced being written off. Other subsequent expenditure is capitalised if a future economic benefit will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of a finance lease is initially recognised at an amount equal to the lower of its fair value and the present value of the minimum lease payment at inception of the lease.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy for that asset.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Depreciation

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

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation commences on the date when an asset is ready for its intended use. Land is not depreciated.

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

- Buildings and structures 7-50 years;
- Power conversion equipment 5-29 years;
- Power transmission lines 7-33 years;
- Other 2-30 years.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Intangible assets

All of the Group's intangible assets have finite useful lives and are capitalised on the basis of the costs incurred to acquire and prepare them for their intended use. Intangible assets are amortised using the straight-line method from the date they are ready for use over their useful lives, for the current and comparative periods, as follows:

- Software 3-15 years;
- Licenses and certificates 3-5 years.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

МРСК СЕВЕРО-ЗАПАДА

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

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

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

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and accounts receivable originated by the Group. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest rate method less any impairment loss.

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets at fair value through profit or loss.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of reporting period. Available-for-sale financial assets mainly include investments in listed and unlisted shares. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, listed shares held by the Group that are traded in an active market are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income in the investment revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in profit or loss for the period. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive the dividends is established. Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value can not be readily measured are stated at cost less impairment losses.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Spare parts

Spare parts and servicing equipment are carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and cash deposits and highly liquid investments with original maturities of three months or less, those are readily convertible to known amount of cash and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generated units that are expected to benefit from the synergies of the combination.

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

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

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

Goodwill that forms part of the carrying amount of an investment in an equity accounted investee is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an equity accounted investee is tested for impairment as a single asset when there is objective evidence that the investment in an equity accounted investee may be impaired.

Dividends

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

Financial liabilities

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

Financial liabilities, including loans and borrowings, trade and other payables, are recognised initially at fair value plus any directly attributable transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

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

Retirement benefit obligations

Long-term employee benefits provided by the Group include defined contribution plans, defined benefit plans and other long-term employee benefits.

Defined contribution plans

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

Defined benefit post-employment plans

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

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

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

Other long-term employee benefits

Other long-term defined benefit plans provided by an entity regulated by Collective Bargaining Agreements include: benefits in connection with the jubilee dates of employees' birthdays, one-time benefits paid in case of death, one-time benefits paid upon retirement or invalidity and financial support to honoured workers. The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

Share capital

Ordinary shares

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

Provisions

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is stated net of value added tax (VAT).

Rendering of services

Revenue from transmitting electricity is recognised on a straight-line basis over the period the service was rendered based on the actual amount provided, determined based on measurements of a supply meter.

Revenue for connection to the power network is recognised either at the full amount at the moment of actual connection of the customer to the network or by reference to the stage of completion.

Dividends and interest income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for investment in property, plant and equipment are recognized as deferred income and amortized during the useful life of related asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss using the effective interest method in the period in which they are incurred.

Income Tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Under IFRS 8 operating segments are components of an enterprise that engage in business activities from which they may earn revenues and incur expenses and about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (the “CODM”) in deciding how to allocate resources and in assessing performance. Segment financial information is presented in the consolidated financial statements in a manner similar to those provided to the CODM. The amount of each segment item reported is the measure reported to the CODM. Total amounts of segment information are reconciled to those in the consolidated financial statements.

New standards and Interpretations not yet adopted

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

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

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

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

- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and

IAS 28 (2011) must also be early-adopted. The new Standard will not have any impact on the Group's financial position or performance.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

- Amendment to IFRS 7 *Disclosures – 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 effective for annual periods beginning on or after 1 July 2011. The new Standard will not have any impact on the Group's financial position or performance.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(in thousand of Russian roubles)

4. GROUP SUBSIDIARIES

The Group's consolidated financial statements include the following subsidiaries that are incorporated in Russian Federation:

Subsidiary	Principal activity	Ownership as at 31 December 2011, %	Ownership as at 31 December 2010, %
Energoservice North-West	Electricity metering services	100	-
Pskovenergoagent	Collection services	100	100
Pskovenergosbyt	Sale of electricity	100	100
Pskovenergoavto	Transportation services	100	100
Lesnaya skazka	Recreation	98	98
CHOP Energia	Security services	-	80

During year ended 31 December 2011 the Group subsidiary CHOP Energia was sold for RUB 610 thousand. Loss on disposal in the amount of RUB 1,843 thousand was included in other non-operating income in the Consolidated Statement of Comprehensive Income. Disposal of the subsidiary is not expected to have any material effect on the Group operations and financial performance.

The 100% subsidiary of the Group JSC "Energoservice North-West" with share capital of RUB 2,000 thousand was incorporated as at 28 January 2011. The primary activity of Energoservice North-West is electricity metering services.

5. OPERATING SEGMENTS

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

The Group's primary activity is the provision of electricity transmission services within regions of the Russian Federation. The internal management reporting system is based on segments relating to electric energy transmission in separate regions of the Russian Federation (branches of IDGC North-West) and segments relating to other activities (represented by separate legal entities).

The Management Board regularly evaluates and analyzes financial information of the segments reported in the statutory financial statements of respective segment entities on at least a quarterly basis.

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

- Transmission Segments - Arkhangelsk, Karelia, Komi, Murmansk, Novgorod, Pskov and Vologda – branches of IDGC North-West;
- Energy Retail Segment – Pskovenergosbyt;

- Other Segments – other Group companies.

Segment items are based on financial information reported in statutory accounts and can differ significantly from those for consolidated financial statements prepared under IFRSs.

The major differences relate to:

- difference in the measurement of property, plant and equipment;
- recognition of employee benefits obligations;
- differences in accounting of deferred tax.

Reconciliation of items measured as reported to the Management Board with similar items in these consolidated financial statements include those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

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

(in thousand of Russian roubles)

Segment results for the year ended 31 December 2011 are presented below:

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Revenues											
Power transmitting	4,219,235	3,685,705	5,776,226	4,550,156	2,722,768	62,870	5,692,409	-	-	-	26,709,369
Connection to power network	246,795	32,571	195,591	77,133	41,652	74,828	215,266	-	-	-	883,836
Sale of electricity	-	-	-	-	-	-	-	5,190,137	-	-	5,190,137
Other revenue	185,938	21,240	58,930	32,087	36,230	46,080	60,818	2,562	7,207	-	451,092
Intersegment revenue	-	5	-	-	95	2,813,731	266	421,238	249,019	-	3,484,354
Total revenues	**4,651,968**	**3,739,521**	**6,030,747**	**4,659,376**	**2,800,745**	**2,997,509**	**5,968,759**	**5,613,937**	**256,226**	**-**	**36,718,788**
Profit/(loss) before income tax	**246,456**	**111,166**	**224,727**	**(404,590)**	**(26,882)**	**193,044**	**615,923**	**92,937**	**(2,443)**	**-**	**1,050,338**
Depreciation	(310,378)	(228,537)	(583,625)	(241,763)	(432,425)	(264,725)	(608,633)	(232)	(6,332)	(22,283)	(2,698,933)
Finance income	2,302	2,828	3,658	3,137	1,879	1,752	4,324	852	32	-	20,764
Finance costs	(54,597)	(43,337)	(82,396)	(105,029)	(26,246)	(11,597)	(477)	(476)	(252)	-	(324,407)
Income tax expense	(70,874)	(49,970)	(117,639)	(50,675)	(72,727)	(77,719)	(112,589)	(23,688)	(2,623)	-	(578,504)
Total assets	**4,510,357**	**3,933,688**	**9,204,861**	**4,054,755**	**5,171,051**	**4,085,798**	**8,235,304**	**411,651**	**115,681**	**1,861,766**	**41,584,912**

OJSC IDGC of North-West

(in thousand of Russian roubles)

	Transmission							Energy Retail	Other Segments	Unallocated	Total
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda				
Including property, plant and equipment	3,504,913	2,856,617	8,153,838	3,134,279	4,862,884	3,743,555	7,050,261	618	12,087	47,882	33,366,934
Total liabilities	**740,499**	**763,843**	**1,364,527**	**1,007,107**	**373,467**	**313,267**	**962,060**	**339,597**	**79,291**	**8,237,500**	**14,181,158**
Capital expenditures	666,345	348,931	874,231	306,677	770,100	879,636	1,272,581	48	1,645	32,657	5,152,851

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Segment results for the year ended 31 December 2010 are presented below:

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Revenues											
Power transmitting	3,636,118	3,518,967	4,905,844	3,506,159	2,553,028	39,765	4,741,434	-	-	-	22,901,315
Connection to power network	68,074	36,071	264,475	59,237	60,163	132,102	47,912	-	-	-	668,035
Sale of electricity	-	-	-	-	-	-	-	4,699,421	-	-	4,699,421
Other revenue	198,935	15,991	285,084	28,990	32,750	10,997	41,382	2,817	14,055	-	631,001
Intersegment revenue	-	5	-	-	-	2,484,635	1,093	404,797	260,973	-	3,151,503
Total revenues	**3,903,127**	**3,571,034**	**5,455,403**	**3,594,386**	**2,645,941**	**2,667,499**	**4,831,821**	**5,107,035**	**275,028**	**-**	**32,051,274**
Profit/(loss) before income tax	**(47,284)**	**138,856**	**(273,872)**	**(779,009)**	**15,694**	**302,152**	**295,711**	**46,915**	**864**	**-**	**(299,973)**
Depreciation	(300,576)	(200,328)	(567,050)	(248,886)	(414,384)	(241,368)	(547,857)	(499)	(6,593)	(16,722)	(2,544,263)
Finance income	982	1,051	2,021	1,474	799	697	1,768	39	-	48	8,879
Finance costs	(140,692)	(63,817)	(112,411)	(107,936)	(25,259)	(14,365)	(9,304)	(4,524)	-	-	(478,308)
Income tax expense	(53,766)	(44,435)	(101,521)	(47,671)	(60,124)	(62,375)	(89,456)	(5,238)	(1,844)	-	(466,430)
Total assets	**4,075,619**	**3,929,353**	**9,043,776**	**3,970,043**	**4,845,071**	**3,464,621**	**7,712,103**	**305,253**	**70,175**	**1,285,693**	**38,701,707**

(in thousand of Russian roubles)

	Transmission										
	Arkhangelsk	Karelia	Komi	Murmansk	Novgorod	Pskov	Vologda	**Energy Retail**	**Other Segments**	**Unallocated**	**Total**
Including property, plant and equipment	3,014,260	2,739,129	7,865,370	3,064,203	4,511,153	3,130,853	6,462,542	811	20,106	39,179	30,847,606
Total liabilities	**454,723**	**894,730**	**1,070,021**	**654,870**	**232,445**	**150,090**	**882,049**	**284,729**	**27,371**	**6,638,569**	**11,289,597**
Capital expenditures	139,944	370,976	523,583	110,714	369,683	487,508	714,188	302	2,478	19,185	2,738,561

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The reconciliations of key segment items measured as reported to the Management Board with similar items in these Consolidated Financial Statements are presented in the tables below.

Reconciliation of revenues is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
Segment revenues	**36,718 788**	**32,051,274**
Intersegment revenue elimination	(3,484,354)	(3,151,502)
Other adjustments	53,404	-
Revenues per Statement of Comprehensive Income	**33,287,838**	**28,899,772**

Reconciliation of profit before income tax is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
Segment results - profit/(loss) before income tax	**1,050,338**	**(299,973)**
Bad debt allowance adjustment	343,775	(349,794)
Adjustments for finance costs	44,615	61,251
Adjustment for depreciation of property, plant and equipment	(132,823)	42,644
Intragroup dividends	(18,345)	(24,021)
Accrued salaries and wages	(2,001)	267,301
Elimination of rent expenses on finance lease arrangements	-	18,580
Other adjustments	(32,500)	11,294
Profit before income tax per Statement of Comprehensive Income	**1,253,059**	**(272,719)**

Reconciliation of depreciation and amortization is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
Segment depreciation	**(2,698,933)**	**(2,544,264)**
Adjustment for depreciation and impairment of property, plant and equipment	(132,823)	42,644
Amortization of intangible assets	(28,345)	(75,206)
Reclassification from other expenses	(24,204)	-
Depreciation, amortization and impairment per Statement of Comprehensive Income	**(2,884,305)**	**(2,576,826)**

(in thousand of Russian roubles)

Reconciliation of financial costs is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
Segment finance income	**20,764**	**8,879**
Segment finance costs	**(324,407)**	**(478,308)**
Amounts included in cost of qualifying assets	36,025	54,016
Discounting of accounts receivable	8,590	7,235
Interest expense on leasing	-	(1,771)
Other finance items reclassification	434	12,498
Net Finance costs per Statement of Comprehensive Income	**(258,594)**	**(397,451)**

Reconciliation of income tax expense is presented below:

	Year ended 31 December 2011	Year ended 31 December 2010
Segment income tax expense	**(578,504)**	**(466,429)**
Adjustment due to different accounting principles for deferred tax calculation	127,629	426,437
Income tax expense per Statement of Comprehensive Income	**(450,875)**	**(39,992)**

Reconciliation of total assets is presented below:

	31 December 2011	31 December 2010
Total segment assets	**41,584,912**	**38,701,707**
Adjustment principally for differences in deemed cost and depreciation rates, borrowing cost capitalized	(3,809,765)	(3,697,993)
Adjustment for low valued items	(290,854)	(221,368)
Adjustment due to different accounting principles for deferred tax calculation	(180,989)	(155,037)
Intersegment balances	(222,300)	(165,734)
Bad debt allowance	(50,694)	(399,167)
Investments in subsidiaries	(41,304)	(51,922)
Discount of accounts receivable	(27,630)	(36,220)
Recognition of assets related to employee benefits	551,642	531,886
Other adjustments	29,130	(4,021)
Total assets per Statement of Financial Position	**37,542,148**	**34,502,131**

(in thousand of Russian roubles)

Reconciliation of property, plant and equipment is presented below:

	31 December 2011	31 December 2010
Segment property, plant and equipment	**33,366,934**	**30,847,606**
Adjustment principally for differences in deemed cost and depreciation rates, borrowing cost capitalized	(3,809,765)	(3,697,994)
Advances for acquisition of property, plant and equipment	(43,467)	72,710
Reclassification from other non-current assets	9,022	1,474
Reclassification to assets classified as held for sale	-	(558)
Property, plant and equipment per Statement of Financial Position	**29,522,724**	**27,223,239**

Reconciliation of total liabilities is presented below:

	31 December 2011	31 December 2010
Total segment liabilities	**14,181,158**	**11,289,597**
Retirement benefit obligations	1,352,999	1,313,833
Adjustment due to different accounting principles for deferred tax	634,674	786,006
Accrued salaries and wages	5,551	480,468
Intersegment balances	(222,300)	(165,734)
Other adjustments	(3,395)	(6,632)
Total liabilities per Statement of Financial Position	**15,948,687**	**13,697,538**

Information on revenues for separate services and products of the Group is presented on the face of the Consolidated Statement of Comprehensive Income.

The Group operates in the Russian Federation. Significant customers of the Group are entities controlled by the Government of the Russian Federation. The amounts of revenues from such entities are disclosed in Note 22. Revenues from companies under government control are reported by all segments of the Group.

For the years ended 31 December 2011 and 2010 the Group had three major customers - distribution companies in two regions of the Russian Federation - with individual turnover over 10% of total Group revenue. Revenue from such customers is reported by transmission segments operating in the regions where these distribution companies are located: Arkhangelsk and Komi (2010: Arkhangelsk, Komi). The total amounts of revenue for these major customers for the year ended 31 December 2011 were RUB 4,050,085 thousand (Arkhangelsk); RUB 3,596,517 thousand (Komi); for the year ended 31 December 2010 were RUB 3,491,746 thousand (Arkhangelsk); RUB 3,163,208 thousand (Komi).

(in thousand of Russian roubles)

6. SALARIES AND OTHER PERSONNEL EXPENSES

Salaries and other personnel expenses for the year ended 31 December 2011 and 2010 were:

	Year ended 31 December 2011	Year ended 31 December 2010
Wages, salaries and bonuses	6,534,357	5,616,490
Defined contribution plan	1,845,375	1,285,702
Defined benefit plan (Note 18)	162,684	182,017
Total	**8,542,416**	**7,084,209**

7. FINANCE INCOME AND FINANCE COSTS

Finance cost for the year ended 31 December 2011 and 2010 were:

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expense on loans	324,157	466,786
Interest expense on leasing	-	1,771
Discounting of long-term accounts receivable	1,089	1,902
Less: amounts included in the cost of qualifying assets	(36,025)	(54,992)
Total Finance Costs	**289,221**	**415,467**
Interest income	(20,513)	(8,831)
Unwinding of discount of other non-current receivables	(9,679)	(9,137)
Other finance income	(435)	(48)
Total Finance Income	**(30,627)**	**(18,016)**
Total Finance Costs, Net	**258,594**	**397,451**

The annual capitalization rate for general purpose borrowings for the year ended 31 December 2011 was 7.47% (2010: 9.67%).

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8. INCOME TAX

Income tax recognised in profit or loss for the year ended 31 December 2011 and 2010 was:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Current income tax	399,343	161,426
Fines	342	(881)
Deferred income tax	(34,275)	(120,553)
Change in recognized deductible temporary difference	85,465	-
Total income tax expense	**450,875**	**39,992**

Profit/loss before income tax for the year is reconciled to income tax expense as follows:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Profit /(loss) before income tax	1,253,059	(272,719)
Income tax at statutory tax rate	250,612	(54,544)
Adjustments due to:		
Permanent tax differences (income and expenses not recognized for taxation purposes)	114,456	95,417
Change in recognized deductible temporary difference	85,465	-
Fines	342	(881)
Income tax expense	**450,875**	**39,992**

The statutory tax rate effective in the Russian Federation was 20% in 2011 and in 2010.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The statutory tax rate of 20% was applied in the calculation of deferred tax assets and liabilities as at 31 December 2011 and 31 December 2010. The tax effect of the movements in these temporary differences is detailed below:

(in thousand of Russian roubles)

	31 December 2011	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	31 December 2010
Accounts receivable	-	(990)	-	990
Pension plan	160,271	3,882	-	156,389
Other current liabilities and accrued expenses	184,865	85,709	-	99,156
Other assets/ liabilities	42,973	1,145	106	41,722
Tax loss carry-forwards	35,677	34,320	-	1,357
Deferred tax assets	**423,786**	**124,066**	**106**	**299,614**
Set-off	(421,651)	(125,663)	-	(295,988)
Net deferred tax assets	**2,135**	**(1,597)**	**106**	**3,626**
Property, plant and equipment	(2,105,390)	(13,027)	-	(2,092,363)
Accounts receivable	(190,839)	(170,219)	-	(20,620)
Accounts payable and advances received	-	3,868	-	(3,868)
Other assets/ liabilities	-	4,122	-	(4,122)
Deferred tax liabilities	**(2,296,251)**	**(175,256)**	**-**	**(2,120,973)**
Set-off	421,651	125,663	-	295,988
Net deferred tax liabilities	**(1,874,578)**	**(49,593)**	**-**	**(1,824,985)**

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	31 December 2010	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	31 December 2009
Accounts receivable	990	(2,204)	-	3,194
Financial lease liabilities	-	(9,963)	-	9,963
Pension plan	156,389	(11,641)	-	168,030
Other current liabilities and accrued expenses	99,156	(41,654)	-	140,810
Other assets/ liabilities	41,722	(13,223)	-	54,945
Tax loss carry-forwards	1,357	(186,498)	-	187,855
Deferred tax assets	**299,614**	**(265,183)**	**-**	**564,797**
Set-off	(295,988)	263,853	-	(559,841)
Net deferred tax assets	**3,626**	**(1,330)**	**-**	**4,956**
Property, plant and equipment	(2,092,363)	61,805	-	(2,154,168)
Accounts receivable	(20,620)	327,723	-	(348,343)
Accounts payable and advances received	(3,868)	(3,868)	-	
Other assets/ liabilities	(4,122)	76	(1,091)	(3,107)
Deferred tax liabilities	**(2,120,973)**	**385,736**	**(1,091)**	**(2,505,618)**
Set-off	295,988	(263,853)	-	559,841
Net deferred tax liabilities	**(1,824,985)**	**121,883**	**(1,091)**	**(1,945,777)**

The Group has recognised deferred tax assets as at 31 December 2011 in respect of tax losses carried forward of RUB 178,385 thousand (31 December 2010: RUB 6,785). The tax losses expire 10 years after their origination in 2019-2020.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductable, management of the Group believes it is more likely than not that the Group will realize the benefits of the deductible differences.

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9. PROPERTY, PLANT AND EQUIPMENT

	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Cost/Deemed cost						
Opening balance as at 1 January 2011	**4,446,538**	**19,190,575**	**8,170,687**	**2,832,707**	**1,233,771**	**35,874,278**
Additions and transfers	433,797	1,787,961	1,611,354	951,141	424,973	**5,209,226**
Disposals	(3,671)	(16,889)	(25 498)	(63,492)	(3,217)	**(112,767)**
Closing balance as at 31 December 2011	**4,876,664**	**20,961,647**	**9,756,543**	**3,720,356**	**1,655,527**	**40,970,737**
Accumulated depreciation and impairment						
Opening balance as at 1 January 2011	**(842,767)**	**(4,793,040)**	**(1,863,746)**	**(1,151,486)**	**-**	**(8,651,039)**
Charge for the period	(261,243)	(1,448,252)	(615,218)	(432,517)	-	**(2,757,230)**
Impairment	(9,087)	(55,246)	(382)	(11,326)	(21,778)	**(97,819)**
Disposals	1,134	6,735	12,045	38,161	-	**58,075**
Closing balance as at 31 December 2011	**(1,111,963)**	**(6,289,803)**	**(2,467,301)**	**(1,557,168)**	**(21,778)**	**(11,448,013)**
Net book value as at 1 January 2011	**3,603,771**	**14,397,535**	**6,306,941**	**1,681,221**	**1,233,771**	**27,223,239**
Net book value as at 31 December 2011	**3,764,701**	**14,671,844**	**7,289,242**	**2,163,188**	**1,633,749**	**29,522,724**

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	Building and structures	Power transmission lines	Power conversion equipment	Other	Assets under construction	Total
Opening balance as at 1 January 2010	**4,182,863**	**18,286,805**	**7,074,353**	**2,629,487**	**1,072,536**	**33,246,044**
Additions and Transfers	275,360	953,989	1,100,103	247,035	211,717	**2,788,204**
Disposals	(11,685)	(50,219)	(3,769)	(43,815)	(50,482)	**(159,970)**
Closing balance as at 31 December 2010	**4,446,538**	**19,190,575**	**8,170,687**	**2,832,707**	**1,233,771**	**35,874,278**
Accumulated depreciation and impairment						
Opening balance as at 1 January 2010	**(601,248)**	**(3,481,229)**	**(1,203,643)**	**(901,098)**	**-**	**(6,187,218)**
Charge for the year	(244,063)	(1,325,259)	(661,200)	(270,392)	-	**(2,500,914)**
Disposals	2,544	13,448	1,097	20,004	-	**37,093**
Closing balance as at 31 December 2010	**(842,767)**	**(4,793,040)**	**(1,863,746)**	**(1,151,486)**	**-**	**(8,651,039)**
Net book value as at 1 January 2010	**3,581,615**	**14,805,576**	**5,870,710**	**1,728,389**	**1,072,536**	**27,058,826**
Net book value as at 31 December 2010	**3,603,771**	**14,397,535**	**6,306,941**	**1,681,221**	**1,233,771**	**27,223,239**

The Group leased vehicles under a number of finance lease agreements. Finance lease obligations were fully settled in 2010 and the Group purchased those leased vehicles at a beneficial price.

The amount of borrowing cost included in cost of qualifying assets for the year ended 31 December 2011 was: RUB 36,025 thousand (2010: RUB 54,992 thousand).

Prepayments for the acquisition of property, plant and equipment are included in the assets under construction as at 31 December 2011 in the amount of RUB 56,464 thousand, net of VAT (as at 31 December 2010: RUB 72,710 thousand, net of VAT).

As a result of observed impairment indicators impairment testing in respect of property, plant and equipment for specific cash-generating units of the Group was performed as at 31 December 2011. The majority of the Group's property, plant and equipment is specialized in nature and is rarely sold on the open market. The market for similar property, plant and equipment is not active and does not provide a sufficient number of sales transactions for use of a market-based approach for determination of the fair value. Therefore the value in use for property, plant and equipment as at 31 December 2011

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was determined using projected cash flows. This method considers the future net cash flows expected to be generated through the usage of property, plant and equipment in the process of operating activities up to its ultimate disposal to determine the recoverable amount of the assets.

The Group estimate that Mezen generation cash generation unit operating activity will be loss making and its property, plant and equipment will not be recoverable. Therefore the Group recognized as at 31 December 2011 an impairment loss of RUB 97,819 thousand with respect to property, plant and equipment of Mezen generation classified as Arkhangelsk transmission segment in the Note 5.

The impairment loss was recognised in depreciation, impairment and amortisation expenses in the amount of RUB 97,819 thousand.

10. INTANGIBLE ASSETS

	Software	Licenses and certificates	Total
Cost			
Opening balance as at 1 January 2011	**87,100**	**19,715**	**106,815**
Additions	17,323	4,763	22,086
Disposals	(35,701)	(15,112)	(50,813)
Closing balance as at 31 December 2011	**68,722**	**9,366**	**78,088**
Accumulated amortization			
Opening balance as at 1 January 2011	**(37,550)**	**(12,102)**	**(49,652)**
Charge for the period	(25,574)	(3,682)	(29,256)
Disposals	25,039	12,663	37,702
Closing balance as at 31 December 2011	**(38,085)**	**(3,121)**	**(41,206)**
Net book value as at 1 January 2011	**49,550**	**7,613**	**57,163**
Net book value as at 31 December 2011	**30,637**	**6,245**	**36,882**
Opening balance as at 1 January 2010	**129,420**	**61,148**	**190,568**
Additions	29,990	3,948	33,938
Disposals	(72,310)	(45,381)	(117,691)
Closing balance as at 31 December 2010	**87,100**	**19,715**	**106,815**
Accumulated amortization			
Opening balance as at 1 January 2010	**(46,293)**	**(44,730)**	**(91,023)**

	Software	Licenses and certificates	Total
Charge for the year	(63,188)	(12,724)	(75,912)
Disposals	71,931	45,352	117,283
Closing balance as at 31 December 2010	**(37,550)**	**(12,102)**	**(49,652)**
Net book value as at 1 January 2010	**83,127**	**16,418**	**99,545**
Net book value as at 31 December 2010	**49,550**	**7,613**	**57,163**

11. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

Investments in securities and other financial assets as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Available-for-sale investments, at fair value		
Equity securities	14,369	27,378
Loans and receivables, at amortized cost		
Restructured trade receivables from principal activities	21,128	30,900
Long-term promissory notes	4,694	4,523
Other non-current receivables	81,030	98,706
Total	**121,221**	**161,507**

Equity securities represent investments in shares of TGC-1 and other securities, which are listed on MICEX and RTS, recorded at fair market value.

The restructured trade receivables are amounts due for electricity for prior periods, which were past-due and in respect of which the agreement to settle such receivables in the course of several years was reached.

The receivables from sale of apartments to employees originate from long-term loans, granted to employees for the purpose of apartments purchases and repayable on the monthly basis from their salary. As at 31 December 2011 the receivables in the amount of RUB 20,812 thousand (2010: RUB 15,346 thousand) from sale of apartments are pledged by the amount of RUB 69,102 thousand (2010: RUB 86,047 thousand) of cost of these apartments.

Long-term promissory notes represent investments in non-interest-bearing promissory notes of MDM-Bank with the maturity date of 21 September 2016. All non-current receivables are RUB-denominated.

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12. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Assets related to long-term employee benefits	551,642	531,886
Recoverable VAT on prepayments from customers	10,019	121,150
Other	72,105	47,591
Total	**633,766**	**700,627**

Assets related to long-term employee benefits represent available for sale financial investments (contributions) in a non-state pension fund (see Note 18). Subject to certain restrictions, contributions to the non-state pension fund can be withdrawn at the discretion of the Group.

13. ACCOUNTS RECEIVABLE AND PREPAYMENTS

Accounts receivable and prepayments as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Trade receivables	4,762,509	4,534,920
Promissory notes	88,350	-
Other receivables	412,800	583,542
Less: allowance for doubtful debts	(1,139,011)	(1,095,866)
Subtotal financial assets	**4,124,648**	**4,022,596**
Prepayments	188,840	169,084
Total	**4,313,488**	**4,191,680**

All accounts receivable are RUB-denominated and relate to sales to enterprises located in Russian Federation.

Accounts receivable include amounts due from related parties (Note 22).

All impaired receivables have been provided for. Management has determined an allowance for doubtful debtors based on specific customer identification, current court practice, customer payment trends, subsequent receipts, and settlements and the analysis of expected future cash flows. Management believes that Group entities will be able to realize the net receivable amount through direct collections and other non-cash settlements, and that therefore, the recorded value approximates their fair value.

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(in thousand of Russian roubles)

The Group's trade receivables as at 31 December 2011 include RUB 827,497 thousand related to amounts in litigation with retail electricity sales companies (31 December 2010: RUB 919,589 thousand) from which a provision in the amount of RUB 321,806 thousand has been recognized (31 December 2010: RUB 197,312 thousand). During 2011 some of the litigations that existed as at 31 December 2010 were won by the Group, some were lost by the Group while others remained unresolved. Additionally the Group entered into a number of new similar litigations. The main reasons for the litigation are disagreements over the amount of power consumed, over application of tariffs for electricity transmission and provision of power and delays in customers' payments. No provision has been recognised for amounts considered to be probable of recovery by the Group.

Certain trade receivables and other accounts receivable have been restructured and are due to be realized more than one year from the end of reporting period (Note 11).

The ageing of receivables at the reporting date was:

	Gross	**Impairment**	**Gross**	**Impairment**
	31 December 2011	**31 December 2011**	**31 December 2010**	**31 December 2010**
Not past due	2,604,244	(34,601)	2,873,101	(23,599)
Past due less than 3 months	587,388	(102,899)	225,176	(33,393)
Past due more than 3 months and less than 6 months	329,902	(33,880)	186,817	(67,648)
Past due more than 6 months and less than 1 year	611,969	(110,713)	429,146	(222,022)
Past due more than 1 year	1,041,806	(856,918)	1,404,222	(749,204)
	5,175,309	**(1,139,011)**	**5,118,462**	**(1,095,866)**

Based upon historic default rates, management believes that, apart from the above, no impairment allowance is necessary in respect of receivables.

Movement in the allowance for doubtful debt in respect of trade and other receivables:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Balance at the beginning of the year	**(1,095,866)**	**(944,177)**
Provision accrual	(365,351)	(555,060)
Provision reversal	15,159	159,018
Amounts written-off as uncollectable	307,047	244,353
Balance at the end of the year	**(1,139,011)**	**(1,095,866)**

Recognition of the allowance for impaired receivables was included in other operating expenses in the Consolidated Statement of Comprehensive Income. The allowance account in respect of trade receivables is used to record impairment loss unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

(in thousand of Russian roubles)

14. INVENTORIES

Inventories as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Spare parts and consumables for repairs	352,966	316,234
Fuel and oils	132,813	129,487
Emergency stock	117,131	114,339
Working clothes and fittings	65,497	55,819
Other inventories	89,175	76,514
Less: allowance for obsolete and slow-moving inventories	(54,762)	(3,242)
Total	**702,820**	**689,151**

As of 31 December 2011 there are no inventories which pledge to secure bank loans and borrowings of the Group (Note 17) (31 December 2010: RUB 5,084 thousand).

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Current accounts RUB - denominated	1,532,568	1,152,413
Special bank accounts	883	810
Other cash and cash equivalents	1,243	1,381
Total	**1,534,694**	**1,154,604**

The Group has accounts in several Russian banks, including Sberbank, Bank-VTB, Bank of Moscow, Gasprombank, Alfa-Bank, Rosbank, Transcreditbank, Uhtabank and others. Management believes that they all are reliable counterparties with a stable position on the Russian market and that, accordingly, no impairment allowance is necessary.

16. EQUITY

Basis of presentation of movements in equity

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting (Note 2), the principal component of the net equity recognized for the group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets.

Authorised, issued and fully paid share capital

As at 31 December 2011 authorised and issued share capital comprised 95,785,923,138 ordinary shares (31 December 2010: 95,785,923,138) of which all ordinary shares were issued and fully paid. All shares have a par value of RUB 0.1.

Merger reserve

The Group was formed by the combination of a number of businesses under common control. Because of the consequent use of the predecessor basis of accounting, the principal component of net equity recognized for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. Based on the application of predecessor accounting, the difference between the value of the share capital issued and the IFRS carrying values of the contributed assets and non-controlling interests was recorded as a merger reserve within equity.

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Retained earnings and dividends

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

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

No profits were distributed based on results for the year ended 31 December 2010. The decision was approved by annual shareholders meeting in June 2011. No other decisions on profit distribution were made at the date these consolidated financial statements were authorized for issue.

Voting rights of shareholders

The holders of fully paid ordinary shares are entitled to one vote per share at the Company's annual and general shareholders' meetings.

(in thousand of Russian roubles)

Earnings per share

Earnings per share were calculated using the weighted average number of ordinary shares. The Company has no dilutive potential ordinary shares; accordingly, diluted earnings per share are equal to basic earnings per share.

17. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's loans and borrowings and financial lease liabilities, which are measured at amortised cost.

	31 December 2011	31 December 2010
Non-current liabilities		
Unsecured bank loans	6,148,294	4,372,530
	6,148,294	**4,372,530**
Current liabilities		
Current portion of secured loans from related parties	-	3,250
Current portion of unsecured loans	70,716	141,428
Unsecured bank loans	9,474	163,391
	80,190	**308,069**

(in thousand of Russian roubles)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			31 December 2011	31 December 2010	31 December 2011		31 December 2010	
Bank loan	**Currency**	**Year of maturity**	**Effective interest rate**	**Effective interest rate**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured bank loans								
Unsecured bank loans	RUB	2011	-	7.31%-7.78%	-	-	1,487	1,487
Unsecured bank loans*	RUB	2011	-	4.5%-8.78%	-	-	303,332	303,332
Unsecured bank loans	RUB	2012	8.90%-8.94%	-	878	878	-	-
Unsecured bank loans*	RUB	2012	7.01%-10.1%	8.78%-9.32%	79,312	79,312	1,270,716	1,270,716
Unsecured bank loans	RUB	2013	8.9%	9.03%-9.75%	20,000	20,000	610,000	610,000
Unsecured bank loans*	RUB	2014	7.01%-7.18%	-	1,350,000	1,350,000	-	-
Unsecured bank loans*	RUB	2015	7.52%-8.94%	7.5%-8.15%	1,331,814	1,331,814	1,291,814	1,291,814
Unsecured bank loans	RUB	2015	7.78%-8.94%	7.31%-7.78%	700,000	700,000	1,200,000	1,200,000
Unsecured bank loans*	RUB	2016	7.49%-7.98%	-	1,377,480	1,377,480	-	-
Unsecured bank loans	RUB	2016	7.5%	-	1,369,000	1,369,000	-	-
					6,228,484	**6,228,484**	**4,677,349**	**4,677,349**
Non-banking loans								
Secured loans from related parties	RUB	2011		6.7%	-	-	3,250	3,250
					-	**-**	**3,250**	**3,250**
Total debt					**6,228,484**	**6,228,484**	**4,680,599**	**4,680,599**

*- Loans from state-controlled entities

(in thousand of Russian roubles)

Loans are raised at market interest rates. Annual interest rates are equivalent to effective interest rates.

The effective interest rate is the market interest rate on main and additional loan agreements effective at the reporting date for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

For more information about the Group's exposure to interest rate and foreign currency risk, see Note 26.

All loans and borrowings are RUB-denominated.

The following assets were pledged to secure loans and borrowings:

	31 December 2011	31 December 2010
Inventories (refer to Note 14)	-	5,084
Total	**-**	**5,084**

18. RETIREMENT BENEFIT OBLIGATIONS

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

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

The table below summarizes the amounts of defined benefit obligations recognized in the financial statements.

Amounts recognized in the Consolidated Statement of Financial Position

	31 December 2011	31 December 2010
Total present value of obligations	1,195,449	1,097,059
Net actuarial gains not recognized in the Consolidated Statement of Financial Position	501,794	644,943
Unrecognized past service cost	(344,244)	(428,169)
Recognized liability in the Consolidated Statement of Financial Position for defined benefit obligations	**1,352,999**	**1,313,833**

(in thousand of Russian roubles)

Movements in the present value of the defined benefit obligations

	Year ended 31 December 2011	Year ended 31 December 2010
Defined benefit obligations at 1 January	1,097,059	1,205,792
Correction of defined benefit obligations at 1 January	-	-
Benefits paid by the plan	(123,518)	(123,690)
Current service costs	45,594	48,607
Interest on obligation	84,648	101,638
Unrecognised actuarial losses/(gains)	91,666	(73,761)
Past service cost	-	(61,527)
Defined benefit obligations at 31 December	**1,195,449**	**1,097,059**

Expense recognized in the Consolidated Statement of Comprehensive Income

	Year ended 31 December 2011	Year ended 31 December 2010
Current service costs	45,594	48,607
Interest on obligation	84,648	101,638
Recognised actuarial gains	(51,483)	(52,154)
Recognized past service cost	83,925	83,926
Correction on defined benefit obligations	-	-
Total	**162,684**	**182,017**

Principal actuarial assumptions used in calculation of defined benefit obligations and related expenses (expressed as weighted averages):

	31 December 2011	31 December 2010
Discount rate	8.50%	8.00%
Future salary increases	5.50%	5.00%
Inflation rate	5.50%	5.00%
Average future working life (years)	11	10
Vesting period	6	7
Mortality table	2002	2002

(in thousand of Russian roubles)

Changes in the net liability in the Consolidated Statement of Financial Position are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Net liability in the Consolidated Statement of Financial Position as at 1 January	1,313,833	1,255,506
Net periodical cost	162,684	182,017
Benefits paid	(123,518)	(123,690)
Net liability in the Consolidated Statement of Financial Position as at 31 December	**1,352,999**	**1,313,833**

Contributions expected to be paid by the entity to Non-State Pension Fund of the Electric Power Industry in the year ended 31 December 2012 amount to RUB 60,979 thousand. Those contributions can be used by the fund both for financing defined benefit and defined contribution plans and contributions related to defined benefit plan only cannot be reliably identified.

19. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Advances from customers	204,600	765,081
Other	63,845	47,780
Total	**268,445**	**812,861**

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(in thousand of Russian roubles)

20. ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable and advances received as at 31 December 2011 and 31 December 2010 were:

	31 December 2011	31 December 2010
Advances received	1,918,163	1,344,456
Trade payables	1,592,482	1,471,181
Payables to employees	1,041,528	756,909
Unsettled liabilities for the acquisition of property, plant and equipment	921,504	634,721
Dividends payable	1,061	1,069
Other payables	151,676	137,016
Total	**5,626,414**	**4,345,352**

No interests charged on the outstanding balance for trade and other payables during credit period. All payables are RUB-denominated.

21. ASSETS CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES

During year ended 31 December 2011 the Group subsidiary CHOP Energia was sold for RUB 610 thousand (see Note 4). As at 31 December 2010 assets of CHOP Energia were included in assets classified as held for sale in the Consolidated Statement of Financial Position. The disposal of the subsidiary does not have a significant effect on financial position and financial results of the Group.

22. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Control relationships

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, is the ultimate controlling party of the Group. As at 31 December 2011 the Group was controlled by JSC Interregional Distribution Grid Company Holding, a state controlled entity (Note 1).

Management remuneration

In 2011 the Group reassessed range of managers that acts as key management personnel. In addition to Management Board, from 2011 key management personnel comprise Board of Directors members and top managers. For comparative purposes data on key management remuneration for 2010 is disclosed based on updated key management list for 2011.

(in thousand of Russian roubles)

There are no transactions or balances with key management and close family members except their remuneration in the form of salary and bonuses. Total key management remuneration which was included in personnel expenses amounted to:

	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and bonuses	145,296	96,924

In 2011 the Group provided key management personnel with annual bonus in amount of RUR 45,904 thousand (2010: nil) for meeting of the key Group's performance indicators.

Transactions with state-controlled entities

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

Revenue from state-controlled entities for the year ended 31 December 2011 constitute 9.9% (2010: 9.3%) of total Group revenue, including 8.3% (2010: 6.8%) of electricity transmission revenues.

Electricity transmission cost due to for state-controlled entities for the year ended 31 December 2011 constitute 72.4 % (2010: 64.9%) of total transmission costs.

Significant loans from state controlled entities are disclosed in Note 17.

Pricing policies

Related party revenue for electricity transmission is based on the tariffs determined by the Federal Service on Tariffs and the Regional Energy Commissions.

23. COMMITMENTS AND CONTINGENCIES

Political environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection. Because of the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. The nature and frequency of these developments and events associated with these risks, which generally are not covered by insurance, as well as their effect on future operations and earnings, are not predictable.

Taxation contingencies in Russian Federation

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

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

The Group is involved in a court dispute as plaintiff related to additional tax liabilities, penalties and related fines implied on the Group in result of the tax audit of income tax for 2008-2009. The total amount of additional tax liabilities, penalties and fines challenged by the Group amounted to RUB 69,171 thousand. Management of the Group has not provided in respect of residual additional tax liabilities and related fines in the amount of RUB 69,171 thousand as it believes it is possible, but not probable that an outflow of economic benefits will be required to settle such obligations.

Litigation

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and as a defendant) arising in the ordinary course of business. In the opinion of management of the Group, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations, financial position or cash flows of the Group and which have not been accrued or disclosed in these consolidated financial statements.

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Other contingencies

The Group believes that all Group’s sales arrangements are generally in compliance with the Russian legislation regulating electric power transmission. However, based on uncertainty of legislation that regulates the lease of Unified National Electricity Network property (“last-mile”) by the Group there is a risk that customers may challenge that the Group has no legal ground to invoice them and hence recognize revenue for electric power transmission services provided via leased “last-mile” grids and courts agree with the customers’ view. The potential amount of such claims could be significant, but cannot be reliably estimated as each claim has individual legal circumstances and respective estimation should be based on variety of assumptions and judgments, which makes it impracticable. The Group did not recognize as at the reporting date any provision for those actual and potential claims as it believes that it is not probable that related outflow of resources or decrease of benefits inflow will take place. The Group believes that expected changes in legislation will further reduce the level of risk.

(in thousand of Russian roubles)

Capital expenditure commitments

As at 31 December 2011 the Group has outstanding commitments under contracts for the purchase and construction of property, plant and equipment of RUB 1,697,860 thousand (as at 31 December 2010: RUB 1,117,681 thousand).

Environmental matters

Group entities and their predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation 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.

Insurance policies

The Russian insurance market is in the development stage and some forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has entered into insurance contracts to insure property, plant and equipment, and land transport and purchased accident, health and medical insurance for employees. Furthermore, the Group has purchased civil liability coverage for operating entities with dangerous production units.

As at 31 December 2010 the Group has insured its industrial assets for the amount of RUB 41,950,451 thousand (as at 31 December 2010: RUB 41,859,502 thousand). Also, as at 31 December 2011 the Group has insured vehicles produced less than 10 years ago for the total insurance coverage of RUB 305,891 thousand (as at 31 December 2010: RUB 280,426 thousand).

24. OPERATING LEASE ARRANGEMENTS

The Group mainly leases land from municipal authorities. The leases provide an option to renew the lease after the end of lease term. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

	Year ended 31 December 2011	**Year ended 31 December 2010**
Rental land lease payments for the year	49,311	48,212
Other rent	88,217	87,950
Total	**137,528**	**136,162**

(in thousand of Russian roubles)

Non-cancellable operating lease rentals are payable as follows:

	31 December 2011	31 December 2010
Less than one year	50,277	43,619
Between one and five years	179,022	166,390
More than five years	1,427,951	1,323,071
Total	**1,657,250**	**1,533,080**

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to their quoted closing bid price; and
- The fair value of other financial assets and financial liabilities is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Management believes that the carrying values of financial assets (refer to Note 26) and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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The fair value of financial assets recognised in the consolidated statement of financial position at fair value (refer to Notes 11 and 26) was determined based on quoted closing bid prices on MICEX at the reporting date (level 1 of fair value measurement hierarchy in accordance with IFRS 7).

26. FINANCIAL RISK MANAGEMENT

Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

Major categories of financial instruments

The Group holds a number of financial instruments with specific characteristics and financial risk factors associated with them. The Group's principal financial liabilities comprise loans and borrowings, finance lease liabilities, trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and loans given, cash and cash equivalents, and promissory notes. Financial instruments per categories as at 31 December 2011 and 31 December 2010 were:

(in thousand of Russian roubles)

Financial assets per category	**31 December 2011**	**31 December 2010**
Available-for-sale financial assets		
Assets related to long-term employee benefits	551,642	531,886
Available-for-sale investments	14,369	27,378
Loans and receivables		
Trade and other receivables	4,231,500	4,156,725
Cash and cash equivalents		
Cash and cash equivalents	1,534,694	1,154,604
Total financial assets	**6,332,205**	**5,870,593**

Financial liabilities per category	**31 December 2011**	**31 December 2010**
Financial liabilities at amortized cost		
Loans and borrowings	(6,228,484)	(4,680,599)
Trade and other payables	(2,665,662)	(2,242,918)
Total financial liabilities	**(8,894,146)**	**(6,923,517)**

Financial risk factors

The Group's activities expose it to a variety of financial risks, including:

- Liquidity risk – the threat of temporary inability to pay financial liabilities when they fall due;
- Credit risk – the threat of non-payment by counterparties on their liabilities;
- Market risks:
    - Interest rate risk – the threat of losses as a result of increases in the interest rates paid out by the Group on the borrowed funds;
    - Currency risks – the threat of losses during implementation of foreign economic or other currency transactions associated with changing of exchange rates of foreign currencies;

The Group does not hedge financial risks.

Capital risk management

The Group manages its capital to ensure that entities of the Group will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance. The management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Foreign currency risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The foreign currency transactions, undertaken by the Group, are absolutely minimal and thus the Group has limited exposure to foreign currency risk.

Interest rate risk

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

The Group does not have any floating rate financial instruments.

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

Credit risk

Credit risk is the risk that a counterparty will default on its obligations to the Group, leading to financial losses to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers, including outstanding unsecured trade and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

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

Before accepting any new customer, the Group uses an internal credit system to assess the potential customer’s credit quality and defines credit limits separately for each individual customer. Credit limits attributable to customers are regularly reviewed at least on an annual basis. Of the receivables balance as at 31 December 2011, the Group’s ten largest electricity retail customers (individually 1% and above of the total balance) represent 72% (31 December 2010: 69%) of the outstanding balance.

The credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, arises from the risk of default of the counterparty, with the maximum exposure being

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(in thousand of Russian roubles)

equal to the carrying value of these instruments. The maximum exposure to credit risk as at 31 December 2011 is RUB 5,766,194 thousand (31 December 2010: RUB 5,311,329 thousand).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Available loan facilities

As at 31 December 2011 the Group's available loan facilities (unutilised credit lines from Bank Russia, Sberbank, Bank VTB), that can be utilised by the Group amount to RUB 2,053,520 thousand (31 December 2010: RUB 3,360,000 thousand).

Liquidity analysis of the Group's obligations

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2011	Carrying amount	Contractual cash flows	up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	6,228,484	8,022,363	313,722	233,003	484,738	1,786,247	2,338,223	2,866,430
Trade and other payables	2,665,662	2,665,662	2,665,534	94	22	12	-	-
	8,894,146	**10,688,025**	**2,979,256**	**233,097**	**484,760**	**1,786,259**	**2,338,223**	**2,866,430**

31 December 2010	Carrying amount	Contractual cash flows	up to 6 month	6 month-1 year	1-2 years	2-3 years	3-4 years	4-5 years
Non-derivative financial liabilities								
Loans and borrowings	4,680,599	5,816,245	401,784	245,074	1,576,094	804,715	185,984	2,602,594
Trade and other payables	2,242,918	2,242,918	2,222,936	19,189	793	-	-	-
	6,923,517	**8,059,163**	**2,624,720**	**264,263**	**1,576,887**	**804,715**	**185,984**	**2,602,594**

27. SUBSEQUENT EVENTS

Changes in group structure

In March 2012 the Group completed liquidation and closed up one of its 100% subsidiary – OJSC Pskovenergoavto. The assets and liabilities of the closed subsidiary were transferred to the Group's branch Pskovenergo. There is no significant impact on the financial statements as the result of the change in the Group structure.