JSC QUADRA – POWER GENERATION

Consolidated financial statements
for the year ended 31 December 2011

JSC QUADRA – POWER GENERATION

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company Quadra – Power Generation (the "Company") and its subsidiaries (the "Group") as at 31 December 2011 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group;
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2011 were approved on 21 May 2012 by:

G.N. Bakaev	I.A. Lapitskaya
General Director	Chief Accountant

Tula, Russia
21 May 2012

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Joint Stock Company Quadra – Power Generation:

We have audited the accompanying consolidated financial statements of Joint Stock Company Quadra – Power Generation 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, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 auditors' judgement, 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 auditors consider internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Deloitte & Touche

Moscow, Russian Federation
21 May 2012

JSC QUADRA – POWER GENERATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011
in thousands of Russian Roubles, unless otherwise stated

	Notes	31/12/2011	31/12/2010
ASSETS			
Non-current assets			
Property, plant and equipment	5	29,710,289	26,954,781
Intangible assets		57,097	52,779
Investments in associates		14,551	15,077
Available-for-sale investments		44,952	75,440
Accounts receivable and advances paid	7	763,265	119,955
Deferred tax assets	8	753,869	532,158
Other assets		11,811	15,897
		31,355,834	**27,766,087**
Current assets			
Inventories	6	1,703,583	1,691,780
Accounts receivable and advances paid	7	6,167,885	4,611,369
Income tax receivable		178,875	27,429
Cash and cash equivalents	9	412,548	3,713,203
Other assets		629	832
		8,463,520	**10,044,613**
Non-current assets classified as held for sale	20	–	271,100
		8,463,520	**10,315,713**
TOTAL ASSETS		**39,819,354**	**38,081,800**
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	10	19,125,056	19,125,056
Preferred shares	10	752,729	752,729
Share premium	10	10,921,097	10,921,097
Merger reserve	10	(1,807,993)	(1,807,993)
Revaluation reserve for property, plant and equipment		3,560,611	5,001,763
Revaluation reserve for available-for-sale investments		13,167	37,557
Accumulated deficit		(2,274,777)	(3,942,751)
Equity attributable to owners of the Company		**30,289,890**	**30,087,458**
Non-controlling interests		(6,025)	(6,025)
TOTAL EQUITY		**30,283,865**	**30,081,433**
Non-current liabilities			
Loans and borrowings	11	1,403,258	627,313
Obligations under finance leases	12	–	35,102
Pension liabilities	13	801,941	763,101
Deferred tax liabilities	8	730,353	515,353
		2,935,552	**1,940,869**
Current liabilities			
Loans and borrowings	11	3,500,872	2,058,263
Obligations under finance leases	12	35,102	38,399
Accounts payable and accruals	14	2,144,642	2,157,347
Provision for legal claims	15	345,476	644,385
Income tax payable		1,979	234,297
Other taxes payable	16	571,866	926,807
		6,599,937	**6,059,498**
TOTAL LIABILITIES		**9,535,489**	**8,000,367**
TOTAL EQUITY AND LIABILITIES		**39,819,354**	**38,081,800**

JSC QUADRA – POWER GENERATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
in thousands of Russian Roubles, unless otherwise stated

	Notes	Year ended 31/12/2011	Year ended 31/12/2010
Revenue			
Electricity and capacity		20,466,780	16,957,713
Heat energy		18,965,244	17,816,025
Other revenue		794,935	768,746
Total revenue		**40,226,959**	**35,542,484**
Operating (expenses)/income			
Fuel		(21,110,804)	(19,446,158)
Staff costs	17	(5,008,355)	(4,393,013)
Purchase of energy and capacity		(4,224,324)	(3,037,880)
Depreciation and amortisation		(2,827,347)	(3,286,183)
Materials and spare parts		(1,037,975)	(867,028)
Repair and maintenance		(959,013)	(954,899)
Change in allowance for doubtful receivables	7	(792,929)	(855,427)
Water usage expenses		(716,205)	(685,622)
Taxes, other than income tax		(568,534)	(373,907)
OREM services		(346,069)	(289,441)
Rent expenses		(300,044)	(287,023)
(Impairment)/reversal of impairment of property, plant and equipment	5	(207,405)	2,737,628
Security services		(155,041)	(140,241)
(Loss)/gain from disposal of property, plant and equipment		(153,304)	226,191
Change in provision for legal claims		298,911	124,760
Other operating income		319,013	177,618
Other operating expenses		(1,124,516)	(903,458)
Operating profit		**1,313,018**	**3,288,401**
Interest income		39,661	25,423
Finance costs, net	18	(132,507)	(159,191)
Foreign currency (loss)/gain, net		(26,097)	30,300
Share of results and impairment of associates		(195)	(714)
Impairment of loans issued to associate	21	(6,800)	–
Profit before income tax		**1,187,080**	**3,184,219**
Income tax expense	19	(308,043)	(754,530)
PROFIT FOR THE YEAR		**879,037**	**2,429,689**
Attributable to:			
Owners of the Company		879,037	2,434,431
Non-controlling interests		–	(4,742)
		879,037	**2,429,689**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Impairment of property, plant and equipment	5	(785,478)	(539,512)
Attributable income tax	19	157,096	107,902
Revaluation of available-for-sale investments		(30,488)	22,795
Attributable income tax	19	6,098	(4,559)
Other comprehensive loss for the year, net of income tax		**(652,772)**	**(413,374)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**226,265**	**2,016,315**
Attributable to:			
Owners of the Company		226,265	2,021,057
Non-controlling interests		–	(4,742)
		226,265	**2,016,315**
EARNINGS PER SHARE			
Basic and diluted earnings per share (in Roubles)	10	0.0005	0.0013

JSC QUADRA – POWER GENERATION

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

in thousands of Russian Roubles, unless otherwise stated

	Year ended 31/12/2011	Year ended 31/12/2010
OPERATING ACTIVITIES		
Profit before income tax	**1,187,080**	**3,184,219**
Adjustments for:		
Depreciation of property, plant and equipment	2,804,531	3,253,723
Loss/(gain) from disposal of property, plant and equipment	153,304	(226,191)
Impairment/(reversal of impairment) of property, plant and equipment	207,405	(2,737,628)
Amortisation of intangible assets	22,816	32,460
Interest income	(39,661)	(25,423)
Finance costs, net	132,507	159,191
Foreign currency loss/(gain), net	26,097	(30,300)
Share of results and impairment of associates	195	714
Impairment of loan issued to associate	6,800	–
Change in allowance for doubtful receivables	792,929	855,427
Change in provision for legal claims	(298,911)	(124,760)
Overdue accounts payable written-off	(2,587)	(8,212)
Other	31,803	(52,068)
Operating profit before working capital changes	**5,024,308**	**4,281,152**
(Increase)/decrease in inventories	(28,330)	105,219
(Increase)/decrease in accounts receivable and advances paid	(3,216,484)	240,829
Decrease in other assets	4,086	11,410
Decrease in pension liabilities	(31,911)	(64,566)
(Decrease)/increase in accounts payable and accruals	(68,169)	318,585
(Decrease)/increase in other taxes payable	(354,941)	184,215
Cash generated from operations	**1,328,559**	**5,076,844**
Interest paid	(203,212)	(92,978)
Interest received	39,425	38,516
Income tax paid	(471,796)	(294,211)
Net cash generated from operating activities	**692,976**	**4,728,171**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,110,851)	(6,296,416)
Proceeds from disposal of property, plant and equipment	37,884	961,876
Purchase of intangible assets	(27,142)	(29,229)
Contribution to share capital of newly established associate	–	(2,450)
Loans issued	(6,950)	–
Proceeds from repayment of bank deposits	–	712,345
Dividends received	720	262
Net cash used in investing activities	**(6,106,339)**	**(4,653,612)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	31,874,859	10,937,510
Repayments of loans and borrowings	(29,701,447)	(10,194,476)
Dividends paid	(22,110)	(30,576)
Repayments of finance leases	(38,399)	(145,260)
Net cash generated from financing activities	**2,112,903**	**567,198**
Effect of exchange rates changes on the balance of cash held in foreign currencies	(195)	18,336
Net (decrease)/increase in cash and cash equivalents	**(3,300,655)**	**660,093**
Cash and cash equivalents at beginning of the year	**3,713,203**	**3,053,110**
Cash and cash equivalents at end of the year	**412,548**	**3,713,203**

JSC QUADRA – POWER GENERATION

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
in thousands of Russian Roubles, unless otherwise stated

	Equity attributable to owners of the Company									
	Ordinary shares	**Preferred shares**	**Share premium**	**Merger reserve**	**Revaluation reserve for property, plant and equipment**	**Revaluation reserve for available-for-sale investments**	**Accumu-lated deficit**	**Total**	**Non-controlling interests**	**Total**
Balance at 1 January 2010	**19,125,056**	**752,729**	**10,921,097**	**(1,807,993)**	**7,301,163**	**19,321**	**(8,212,670)**	**28,098,703**	**(1,283)**	**28,097,420**
Total comprehensive income/(loss) for the year	–	–	–	–	(431,610)	18,236	2,434,431	**2,021,057**	(4,742)	**2,016,315**
Dividends	–	–	–	–	–	–	(32,302)	**(32,302)**	–	**(32,302)**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	(2,334,737)	–	2,334,737	**–**	–	**–**
Income tax attributable to transfer	–	–	–	–	466,947	–	(466,947)	–	–	–
Balance at 31 December 2010	**19,125,056**	**752,729**	**10,921,097**	**(1,807,993)**	**5,001,763**	**37,557**	**(3,942,751)**	**30,087,458**	**(6,025)**	**30,081,433**
Total comprehensive income/(loss) for the year	–	–	–	–	(628,382)	(24,390)	879,037	**226,265**	–	**226,265**
Dividends	–	–	–	–	–	–	(24,248)	**(24,248)**	–	**(24,248)**
Write off of overdue dividends payable	–	–	–	–	–	–	415	**415**	–	**415**
Transfer of realised revaluation reserve for property, plant and equipment to accumulated deficit	–	–	–	–	(1,015,962)	–	1,015,962	**–**	–	**–**
Income tax attributable to transfer	–	–	–	–	203,192	–	(203,192)	**–**	–	**–**
Balance at 31 December 2011	**19,125,056**	**752,729**	**10,921,097**	**(1,807,993)**	**3,560,611**	**13,167**	**(2,274,777)**	**30,289,890**	**(6,025)**	**30,283,865**

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company Territorial Generation Company № 4 was established on 18 April 2005, as a subsidiary of Open Joint Stock Company RAO "UES of Russia" within the framework of Russian electricity sector restructuring. On 18 May 2010, the Company's name was changed to Open Joint Stock Company Quadra – Power Generation ("Quadra" or the "Company").

The principal business activity of the Company and its subsidiaries (the "Group") is generation and sale of electricity (capacity) and heat energy. The major operational facilities of the Group are located on the territory of the Russian Federation in the following regions: Belgorod, Bryansk, Voronezh, Kaluga, Kursk, Lipetsk, Oryol, Ryazan, Smolensk, Tambov and Tula.

The Company's registered office is located at: 99v, Timiryazev str., Tula, 300012, Russian Federation.

The major subsidiaries of the Company and their principal business activities are the following:

		Ownership, %	
Name of subsidiary	**Principal activity**	**31/12/2011**	**31/12/2010**
JSC Belgorodskaya Heat Network Company	Heat generation and distribution	100.0	100.0
JSC Smolenskaya Heat Network Company	Heat generation and distribution	100.0	100.0
JSC Kurskaya Heat Network Company	Heat generation and distribution	100.0	100.0
LLC Orlovskaya Heat Network Company[1]	Heat generation and distribution	100.0	100.0
LLC Ryazansakaya Heat Network Company[2]	Heat generation and distribution	100.0	–
LLC Smolenskaya Heat Network Company[2]	Heat generation and distribution	100.0	–
LLC Tambovskaya Heat Network Company[2]	Heat generation and distribution	100.0	–
LLC Voronezhskaya Heat Network Company[2]	Heat generation and distribution	100.0	–
JSC Quadra – remont	Repairs of heat- and electro-mechanical equipment of power stations	100.0	100.0
LLC OTSK	Heat generation and distribution	100.0	100.0
JSC Tulenergokomplekt[3]	Procurement and logistic services	50.0	50.0

[1] Reorganised in October 2011, from JSC Orlovskaya Heat Network Company.
[2] Established in 2011, as a step in the process of separating heat generation and distribution facilities approved by the Board of Directors of the Company.
[3] Control of the Group is achieved through majority at the Board of Directors of the subsidiary.

As at 31 December 2011, the number of the Group's employees was 13,168 (2010: 13,287).

As at 31 December 2011 and 2010, Onexim Holdings Limited, the major shareholder of the Group, owned 50.0% of the Company's ordinary shares.

The Company's associates and their principal business activities are the following:

		Ownership, %	
Name of associate	**Principal activity**	**31/12/2011**	**31/12/2010**
JSC Energetic Health Centre	Health and recreation services	49.0	49.0
JSC Technotest-Energo	Assembly and repair works	49.0	49.0
JSC Schekinskiye PGU[1]	Technical supervision services	–	41.0
LLC Kursk Energia	Technical supervision services over heat distribution networks	49.0	49.0

[1] Liquidated in November 2011, due to bankruptcy.

Operating environment

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the Russian Federation and Russia's economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the Russian Federation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the Government, together with development in the legal, regulatory, and political development.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia's economy, adversely affecting the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market, which has fluctuated significantly during 2010 − 2011.

Relations with the State and current regulation

The government affects the Group's operations by regulating tariffs for electricity and heat sales through the Federal Service on Tariffs ("FST") and Regional Energy Commissions. Tariffs which the Group may charge for sales of electricity and heat are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

Operations of all generating facilities are coordinated by the System Operator of the Unified Energy System ("SO UES") in order to meet system requirements in a more efficient manner. Operations of SO UES are controlled by the state.

Russian government's economic, social and other policies could have a material effect on the Group's operations.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes standards and interpretations approved by the International Accounting Standards Board, including International Accounting Standards and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation, where entities of the Group are incorporated and registered. Accounting principles and financial reporting procedures in the Russian Federation differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for:

- mark-to-market valuation of certain financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*; and
- revaluation of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*.

Adoption of new and revised standards and interpretations

In preparation of the consolidated financial statements for the year ended 31 December 2011, the Group has adopted all of the standards that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2011.

Adoption of revisions and amendments to the following Standards and Interpretations detailed below did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 *Presentation of Financial Statements* (amended);
- IAS 24 *Related Party Disclosures* (revised);
- IAS 27 *Consolidated and Separate Financial Statements* (amended);
- IAS 32 *Financial Instruments: Presentation* (amended);
- IAS 34 *Interim Financial Information* (amended);
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended);
- IFRS 3 *Business Combinations* (amended);
- IFRS 7 *Financial Instruments: Disclosures* (amended);
- IFRIC 13 *Customer Loyalty Programmes* (amended);
- IFRIC 14 *IAS 19: Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* (amended);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

Standards and interpretations in issue but not yet adopted

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 1 *Presentation of Financial Statements* (amended)	1 January 2012
IAS 12 *Income Taxes* (limited scope amendments)	1 January 2012
IAS 19 *Employee Benefits* (amended)	1 January 2013
IAS 27 *Consolidated and Separate Financial Statements* (amended)	1 January 2013
IAS 28 *Investments in Associates* (amended)	1 January 2013
IAS 32 *Financial Instruments: Presentation* (amended)	1 January 2014
IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amended)	1 July 2011
IFRS 7 *Financial Instruments: Disclosures* (amended)	1 July 2011
IFRS 9 *Financial Instruments*	1 January 2015
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 11 *Joint Arrangements*	1 January 2013
IFRS 12 *Disclosure of Interest in Other Entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

Management anticipate that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of their adoption in the preparation of the consolidated financial statements in future periods is currently being assessed by management. Management anticipates that the adoption of IAS 19 *Employee Benefits*, as presented below, will affect consolidated financial statements of the Group. Specifically:

***IAS 19 Employee Benefits** (as revised in 2011 and effective for the annual periods beginning on or after 1 January 2013 with certain exemptions)*

Amendments to IAS 19 *Employee Benefits* change accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. Amended standard requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the '*corridor approach*' permitted under the previous version of IAS 19 *Employee Benefits* and accelerate the recognition of past service costs. It also requires all actuarial gains and losses to be recognised immediately within other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Should the Group retrospectively applied IAS 19 *Employee Benefits* from 1 January 2010 (the earliest period presented in these consolidated financial statements), the Group pension liabilities would be (decreased)/increased by RUB (42, 877) thousand, RUB 143,964 thousand and RUB 105,286 thousand as at 31 December 2011, 2010 and 1 January 2010 with corresponding increase/decrease in comprehensive income/(loss) for the years then ended.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company 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 effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in consolidated subsidiaries are indentified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Differences, if any, between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest;
- the previous carrying amount of the assets (including goodwill, if any) and liabilities of the subsidiary and any non-controlling interests.

Amount previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed off. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investments in associate or jointly controlled entity.

Business combinations

Acquisitions of subsidiaries and businesses, other then those arising from entities under common control (see below), are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any assets or liabilities resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability and are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attained control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed off.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) *Business Combinations* are recognised at the fair value at the acquisition date, except for:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*;
- assets (or disposal group) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would affect the amount recognised as of that date.

Common control transactions

In the consolidated financial statements of the combined entity purchase of subsidiaries from parties under common control is presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. Assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. Related goodwill, if any, inherent in the predecessor entity's original acquisitions is also recorded in the consolidated financial statements. Any difference between the carrying amount of net assets, including goodwill, and consideration for the acquisition is accounted for in the consolidated statement of changes in equity as *Merger reserve*.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Foreign currencies

The functional currency of the Company and its subsidiaries is the Russian Rouble ("RUB").

In preparing financial statements of the individual entities, transactions in currencies other than RUB (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the each reporting dates. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Exchange rates used in the preparation of the consolidated financial statements are as follows:

	31/12/2011	31/12/2010
RUB to 1 US Dollar		
Year end rates	32.20	30.48
RUB to 1 Euro		
Year end rates	41.67	40.33

Property, plant and equipment

Property, plant and equipment are stated at revalued amounts less any subsequent accumulated depreciation and impairment losses.

All classes of property, plant and equipment are presented in the consolidated statement of financial position at their revalued amounts determined by an independent and qualified appraiser. The basis of valuation was fair value. In some instances, when items of property, plant and equipment are of a specialised nature, they were valued at depreciated replacement cost. For such items of property, plant and equipment the new replacement cost was established as the current cost to replace the assets with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation, including physical depreciation and functional obsolescence.

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ substantially from those that would be determined using fair values at end of the reporting period. Any revaluation increase arising on revaluation of such property, plant and equipment is recognised in other comprehensive income, except to the extend that it reverses a revaluation decreases for the same assets previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the *Revaluation reserve for the property, plant and equipment* relating to a previous revaluation of that asset.

Depreciation on revaluated property, plant and equipment is recognised in profit or loss. The revaluation surplus is transferred directly to retained earnings when it is realised either on the subsequent sale or retirement of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Construction-in-progress includes costs directly related to the construction or acquisition of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets (i.e. software that is integral part of related equipment) that require installation or preparation for their use. Finance costs that are attributable to the acquisition or construction of assets, that necessary takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset. Depreciation of these assets commences when the assets are put into operation.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The Group recognises the cost of replacing part in the carrying amount of an item of property, plant and equipment if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the assets and is recognised in profit or loss.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets held under finance lease arrangements and operating leasehold improvements are depreciated over the shorter of their estimated useful lives and lease terms. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset. Land is not depreciated.

The estimated useful lives (in years) for the major classes of property, plant and equipment used in determination of depreciation charge for the year ended 31 December 2011 were as follows:

Electricity and heat generation	1−52
Electricity distribution	1−31
Heating networks	1−28
Other	1−54

Depreciation methods, useful lives and residual values (if any) are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

For the year ended 31 December 2011, the following useful lives (in years) are used in the calculation of amortisation charge:

Computer software	1−10
Licences	1−15

The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets, excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see above).

Where an impairment loss is subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see above).

Financial assets

Financial assets are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets of the Group are classified into the following specified categories:

- available-for-sale ("AFS") financial assets; and
- loans and receivables.

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

Effective interest method

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

AFS financial assets

Listed and unlisted shares held by the Group are classified as AFS and are stated at fair value. Fair value of AFS is determined as follows:

- the fair value of AFS financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other AFS financial assets are determined in accordance with generally accepted pricing model based on discounted cash flow analysis using prices from observable current market transactions.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the *Revaluation reserve for available-for-sale investments* with the exception of impairment losses, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the *Revaluation reserve for available-for-sale investments* is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest 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

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the securities below their cost is considered to be evidence of impairment.

For loans and receivables objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For loans and receivables (financial assets carried at amortised cost), the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying value is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Change in the carrying amount of the allowance account is recognised in profit or loss.

When an AFS is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

With the exception of AFS financial assets, if in subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment is reversed through profit or loss to the extant that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS investments in shares, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes appropriate portion of fixed and variable overheads and is calculated using the following methods:

- *cost of fuel* is determined on the weighted average basis;
- *cost of other inventory* is determined on an individual basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial liabilities

Financial liabilities, including trade and other payables and loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

Provisions and contingencies

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.

Contingencies

Contingencies attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefit is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefit is probable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax. Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured. Cash received in advance from customers is not treated as current year revenue, and is recognised within liabilities.

Revenue from heat and electricity

Revenue from heat and electricity (capacity), is recognised when they are supplied to customers.

Other revenue

Other revenue from sales of goods and services are recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend income from investments is recognised when the Group'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.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease agreement. Initial direct costs, if any, incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and 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 capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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 in the period in which they are incurred.

Employee benefit obligations

Remuneration to employees in respect if services rendered during the reporting period, including accruals for unused vacation, bonuses and related social security taxes, is recognised as an expense in the period when it is earned.

Defined contribution plan

The Group's entities are legally obliged to make defined contributions to the Russian Federation State Pension Fund, a defined contribution plan. The Group's contributions to the Russian Federation State Pension Fund are expensed over the reporting period. Contributions for each employee to the Russian Federation State Pension Fund vary from 0% to 26%, depending on the annual gross remuneration of each employee.

Defined benefit plan

The Group established partially funded defined benefit plan for its employees.

For defined benefit plan, the cost of providing benefits is determined using the Project Unit Credit Method with actuarial valuation being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined obligation and the fair value of plan assets as at the end of the prior year are amortised over expected average remaining working lives of the participating employees. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over average period until the benefit become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligations as adjusted for:

- unrecognised actuarial gains and losses;
- unrecognised past service costs;
- reduced by the fair value of plan assets.

Any assets resulting from this calculation is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reductions in future contributions to the plan.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

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 liabilities for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of reporting period.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. 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 deferred tax 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 the end of each 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 rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantially 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 end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with the IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:

- useful economic lives of property, plant and equipment;
- impairment of property, plant and equipment;
- allowance for doubtful receivables;
- employee benefit obligations;
- income tax.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Useful economic lives of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on the Group's experience with similar assets. The future economic benefits embodied in property, plant and equipment are consumed principally through use. However, other factors, such as technical or commercial obsolescence and condition of property, plant and equipment (including operational factors and utilisation of maintenance programs), often will result in a change of the economic benefits from these assets.

Management periodically reviews the appropriateness of assets' useful economic lives. Revision to estimate of the useful lives of property, plant and equipment is recognised prospectively in the period of the revision and where applicable, future periods. Accordingly, this may impact the amount of depreciation charge and carrying amount of property, plant and equipment in the future.

Impairment of property, plant and equipment

The Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determination the value in use calculation, future cash flows estimated at each cash-generating unit are based on a cash flow projection utilising the latest budgeted information available to the management.

Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Further details, including sensitivity analysis in regard of key estimates and assumptions applied in determination of value in use, are presented in note 5.

Allowance for doubtful receivables

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. At 31 December 2011, allowance for doubtful receivables amounted to RUB 2,303,503 thousand (2010: RUB 1,547,087 thousand).

When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Changes in the economy, industry or specific customer conditions may require adjustments to allowance for doubtful receivables recorded in the consolidated financial statements.

Employee benefit obligations

The expected costs of providing pensions and post retirement benefits under defined benefit plan and related employee current service cost during the period are charged to profit or loss. Assumptions in respect of the expected costs are set after consultation with actuaries. While management believes that the assumptions used are appropriate, a change in the assumptions used would impact the result of the Group's operations.

The principal assumptions used for the purpose of the actuarial valuation were the following:

	31/12/2011	31/12/2010
Discount rate	8.8%	7.8%
Expected salary increase	7.0%	6.5%
Inflation	6.0%	6.0%
Mortality table	Russia 2009	Russia 2009

Income tax

The Group is subject to income taxes in the Russian Federation. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit 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 income tax and deferred tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected.

in thousands of Russian Roubles, unless otherwise stated

5. PROPERTY, PLANT AND EQUIPMENT

	Electricity and heat generation	**Electricity distribution**	**Heating networks**	**Other**	**Construction-in-progress**	**Total**
Cost or valuation						
Balance at 1 January 2010	**9,459,513**	**1,633,353**	**658,330**	**3,907,720**	**6,757,806**	**22,416,722**
Additions	248,882	56	7,870	59,932	6,141,398	**6,458,138**
Transfers from construction-in-progress	3,105,182	26,843	702,241	750,869	(4,585,135)	**–**
Disposals	(38,946)	(1,022)	(897)	(16,985)	(33,646)	**(91,496)**
Reclassified to assets held for sale	(219,835)	(76,423)	(70,417)	(136,847)	(1,551)	**(505,073)**
Reclassification of reversed impairment	2,425,207	56,535	618,167	192,287	940,855	**4,233,051**
Balance at 31 December 2010	**14,980,003**	**1,639,342**	**1,915,294**	**4,756,976**	**9,219,727**	**32,511,342**
Additions	274,748	–	102,187	63,463	6,198,383	**6,638,781**
Transfers from construction-in-progress	5,227,600	171,756	742,627	1,001,875	(7,143,858)	**–**
Disposals	(4,433)	(40,922)	(70)	(33,924)	(139,697)	**(219,046)**
Reclassified from assets held for sale	19,179	58	89,699	1,030	–	**109,966**
Reclassification of reversed impairment	1,964,246	8,382	205,162	183,623	–	**2,361,413**
Balance at 31 December 2011	**22,461,343**	**1,778,616**	**3,054,899**	**5,973,043**	**8,134,555**	**41,402,456**
Accumulated depreciation and impairment						
Balance at 1 January 2010	**(7,558)**	**(656)**	**–**	**(11,515)**	**(14,417)**	**(34,146)**
Depreciation charge for the year	(1,925,246)	(242,433)	(156,807)	(929,237)	–	**(3,253,723)**
Eliminated on disposals	1,917	22	161	4,196	650	**6,946**
Reclassified to assets held for sale	(144,721)	14,766	(119,284)	9,591	(1,055)	**(240,703)**
Reversal of impairment, net	1,668,877	47,232	179,904	(105,637)	407,740	**2,198,116**
Reclassification of reversed impairment	(2,425,207)	(56,535)	(618,167)	(192,287)	(940,855)	**(4,233,051)**
Balance at 31 December 2010	**(2,831,938)**	**(237,604)**	**(714,193)**	**(1,224,889)**	**(547,937)**	**(5,556,561)**
Depreciation charge for the year	(1,736,180)	(151,552)	(253,810)	(662,989)	–	**(2,804,531)**
Eliminated on disposals	1,062	6,686	70	17,027	770	**25,615**
Reclassified from assets held for sale	(2,385)	–	–	(9)	–	**(2,394)**
Impairment/(reversal of impairment), net	(444,137)	(70,221)	(344,655)	(311,462)	177,592	**(992,883)**
Reclassification of reversed impairment	(1,964,246)	(8,382)	(205,162)	(183,623)	–	**(2,361,413)**
Balance at 31 December 2011	**(6,977,824)**	**(461,073)**	**(1,517,750)**	**(2,365,945)**	**(369,575)**	**(11,692,167)**
Carrying value						
Balance at 31 December 2010	**12,148,065**	**1,401,738**	**1,201,101**	**3,532,087**	**8,671,790**	**26,954,781**
Balance at 31 December 2011	**15,483,519**	**1,317,543**	**1,537,149**	**3,607,098**	**7,764,980**	**29,710,289**

in thousands of Russian Roubles, unless otherwise stated

Had the Group's property, plant and equipment been measured on a historical (deemed) cost, their carrying value would have been as follows:

	31/12/2011	31/12/2010
Electricity and heat generation	13,641,706	9,174,774
Electricity distribution	485,443	415,146
Heating networks	1,360,239	945,092
Other	2,304,899	1,846,746
Construction-in-progress	7,730,951	8,590,400
Total	**25,523,238**	**20,972,158**

Property, plant and equipment pledged as security

The Group leases property, plant and equipment under a number of finance lease agreements. At the end of the lease term the Group takes automatic ownership of the assets or has an option to purchase leased assets at a beneficial price. Finance leases obligations are secured by the lessors' title to the leased assets.

	31/12/2011	31/12/2010
Carrying value of leased equipment (refer to note 12)	97,830	199,061

Certain items of property, plant and equipment have been pledged to secure bank loans and certain unused credit facilities granted to the Group:

	31/12/2011	31/12/2010
Carrying value of pledged property, plant and equipment (refer to note 11)	–	838,508

Construction-in-progress

Construction-in-progress represents the carrying amount of property, plant and equipment that was not yet available for use and advances to construction companies and suppliers of property, plant and equipment. The amount of such advances was presented as follows:

	31/12/2011	31/12/2010
Advances to construction companies and suppliers of property, plant and equipment	1,958,218	3,340,902

Impairment test

At 31 December 2011, as a result of not admission of generating facilities of the Group with capacity of 334 MVt due to technical parameters and with cpacity of 104 MVt due to price to competitive capacity selection for 2012 and certain steps undertaken by the Government of the Russian Federation that significantly affect expected indexation of tariffs and accelerated increase of the natural gas prices, the Group performed impairment test in respect of property, plant and equipment.

The most significant estimates and assumptions used in determination of value in use were the following:

Cash flows were projected based on budgeted amounts for 2012, taking into account actual results for the previous years. Cash flows were forecasted up to 2019, which is generally in line with expected remaining weighted average useful life of property, plant and equipment of the Group.

Increase of electricity tariffs was based on actual tariffs effective from 1 January 2012 as approved by FST. Management expects that regulated tariffs will be indexed in line with the increase of natural gas prices (principal technological fuel). The same expectations were applied in determination of electricity prices on open market. Expected trend will be in line with the increase of natural gas and coal prices, including adjustment in regard to new generation capacities to be put into the operation in the future.

in thousands of Russian Roubles, unless otherwise stated

The summary of the expected increase of electricity prices on open market, natural gas and coal prices is presented as follows:

	Increase compared to preceding year, %		
	Electricity	**Natural gas**	**Coal**
2012	6.8	6.8	5.1
2013	15.1	15.1	4.8
2014	14.7	14.7	4.8
2015	11.8	11.8	4.4
2016	11.8	11.8	4.9
Thereafter (2017 – 2019)	11.8 – 12.7	11.8 – 12.7	4.1 – 5.1
Average for the period up to 2020	**12.1**	**12.1**	**4.7**

Increase of capacity tariffs was based on actual tariffs effective from 1 January 2012 as approved by FST. Management expects that tariffs will be a subject for indexation in line with expected purchase power price index (“PPPI”) increase.

Increase of heat tariffs was based on actual tariffs effective from 1 January 2012 (where applicable) as approved by the respective Regional Authorities. Management expects that tariffs will be a subject for indexation in line with the increase of natural gas prices in regard of fuel component and PPPI for fixed fee component.

The summary of the expected inflation and PPPI increase (compared to preceding year, %) is presented as follows:

2012	5.1
2013	5.9
2014	5.2
2015	5.2
2016	5.2
Thereafter (2017 – 2019)	2.6 – 4.7
Average for the period up to 2020	**4.6**

The *volumes of electricity output* for the following years were estimated by management of the Group based on increase of average annual output by 4.86% p.a. for the forecasted period.

The *volumes of heat output* for the following years were estimated by management of the Group based on decrease of average annual output by 0.49% p.a. for the forecasted period.

Such trends and forecasts are generally in line or close to forecasts developed by utility experts recognisable on the market and agree to the long-term management’s vision of future development of the utility market in the Russian Federation in general and in the regions where the Group’s production facilities are located.

Expected increase of other operating expenses was forecasted not to exceed PPPI.

A post-tax discount rate of 12.83% was calculated based on Weighted Average Cost of Capital (“WACC”) that reflects management’s assessment of the risks specific to the utility business in the Russian Federation.

As a result of annual impairment test at 31 December 2011, the Group recognised impairment loss in the amount of RUB 992,883 thousand (2010: reversed previously recognised impairment loss in the amount of RUB 2,737,628 thousand and accrued additional impairment loss of RUB 539,512 thousand).

	Year ended 31/12/2011	**Year ended 31/12/2010**
(Impairment loss)/reversal of impairment recognised in profit and loss	(207,405)	2,737,628
Impairment loss recognised in other comprehensive income	(785,478)	(539,512)
Total (impairment loss)/reversal of impairment recognised	**(992,883)**	**2,198,116**

in thousands of Russian Roubles, unless otherwise stated

Sensitivity analysis

For certain cash-generating units changes in key assumptions such as *post-tax discount factor or WACC, PPPI* and *annual growth of natural gas prices* could result in the carrying value exceeding their recoverable amount.

The implication of the key assumptions and potential outcome for the recoverable amount and impact on carrying value of property, plant and equipment at 31 December 2011 are presented as follows:

	WACC		PPPI		Natural gas price	
	-1%	**+1%**	**-1%**	**+1%**	**-1%**	**+1%**
Increase/(decrease) in carrying value	1,424,900	(1,639,285)	(47,417)	49,044	641,348	(641,351)

6. INVENTORIES

	31/12/2011	31/12/2010
Fuel	1,170,001	1,215,891
Raw materials	332,932	329,399
Other inventories	209,498	153,985
Total inventories, at cost	**1,712,431**	**1,699,275**
Less: allowance for obsolete and slow moving items	(8,848)	(7,495)
Total	**1,703,583**	**1,691,780**

Certain inventories were pledged to secure bank loans and borrowings and certain unused credit facilities granted to the Group:

	31/12/2011	31/12/2010
Fuel (refer to note 11)	–	560,739

Certain inventories, which are expected to be recovered after one year are presented as follows:

	31/12/2011	31/12/2010
	126,361	116,187

7. ACCOUNTS RECEIVABLE AND ADVANCES PAID

	31/12/2011	31/12/2010
Trade accounts receivable	8,404,359	5,946,481
Other accounts receivable	122,118	95,320
Less: allowance for doubtful receivables	(2,303,503)	(1,547,087)
Total financial assets	**6,222,974**	**4,494,714**
Advances paid and prepaid expenses	658,823	156,523
VAT reimbursable	48,100	64,465
Other taxes receivable	1,253	15,622
Total non-financial assets	**708,176**	**236,610**
Total non-current portion of accounts receivable and advances paid	**763,265**	**119,955**
Total current portion of accounts receivable and advances paid	**6,167,885**	**4,611,369**

in thousands of Russian Roubles, unless otherwise stated

The average credit period for the Group's customers was 64 days (2010: 54 days). During this period no interest was charged on outstanding balances. Thereafter, in regard of the agreements for supply of electricity and capacity, interest is charged at the 1/225 of the Central Bank of the Russian Federation ("CB RF") refinancing rate per day. As at 31 December 2011, the CB RF refinancing rate was established at 8.00% per annum (2010: 7.75% per annum).

There is no formal credit rating analysis performed by the Group entities before accepting new customers due to the fact that majority of the counterparties were accepted long time ago and/or such counterparties are monopolists for further distribution and sales of electricity and heat energy. In addition, utility services are the monopoly services provided by the Group subsidiaries in the regions where they operate.
When a commercial enterprise, a customer of the Group, fails to settle the amount due the heat energy supplied within 30 days after the date of invoice, the Group has a right to restrict or temporary discontinue provision of services to this customer. Such a right does not exist in respect of individuals and certain state controlled entities.

At 31 December 2011, the Group's five largest counterparties represented 33.7% (2010: 38.2%) of the outstanding balance of accounts receivable and advances paid:

Name of counterparty	Account balance	31/12/2011	31/12/2010
MUP Gorteploset, Kursk	Trade receivables	1,183,878	572,511
MUP Smolenskteploset	Trade receivables	521,117	351,604
MUP Tambovinvestservice	Trade receivables	489,498	338,880
JSC Lipetskaya Gorotskaya Energetitcheskaya Companiya	Trade receivables	461,394	n/a
JSC TsFR	Trade receivables	458,880	799,997
MUP RMPTS, Ryazan	Trade receivables	n/a	336,329
Total		**3,114,767**	**2,399,321**

Aging of trade and other receivables was as follows:

	31/12/2011		31/12/2010	
	Outstanding balance	**Impairment provision**	**Outstanding balance**	**Impairment provision**
Not past due	5,255,757	(729,887)	4,186,052	(132,683)
From 30 to 90 days	601,368	(62,420)	160,979	(87,379)
From 91 to 180 days	344,764	(65,127)	161,623	(97,650)
From 181 to 360 days	1,042,439	(293,702)	666,233	(485,917)
More than 361 days	1,282,149	(1,152,367)	866,914	(743,458)
Total	**8,526,477**	**(2,303,503)**	**6,041,801**	**(1,547,087)**

Movement in allowance for doubtful receivables in respect of trade and other receivables is presented as follows:

	31/12/2011	31/12/2010
Balance at beginning of the year	**1,547,087**	**763,685**
Effect of discounting of long-term accounts receivable	727,297	32,370
Additional allowance recognised	529,021	933,428
Reversal of previously recognised allowance	(433,086)	(109,091)
Unwinding of discount of long-term accounts receivable	(30,303)	(1,280)
Total recognised in profit or loss	**792,929**	**855,427**
Amounts written-off as uncollected	(36,513)	(72,025)
Balance at end of the year	**2,303,503**	**1,547,087**

in thousands of Russian Roubles, unless otherwise stated

8. DEFERRED TAX

Movements in deferred tax assets and liabilities of the Group for the years ended 31 December 2011 and 2010 are presented as follows:

	31/12/2011	Recognised in profit or loss	Recognised in other compre-hensive income	Reclassified from assets held for sale	31/12/2010	Recognised in profit or loss	Recognised in other compre-hensive income	Reclassified to assets held for sale	31/12/2009
Deferred tax assets									
Property, plant and equipment	**204,547**	(2,219)	–	44,494	**162,272**	103,379	–	(63,528)	**122,421**
Loss carried forward	**191,343**	191,343	–	–	**–**	–	–	–	**–**
Accounts payable and accruals	**165,398**	(49,038)	–	–	**214,436**	(22,305)	–	–	**236,741**
Doubtful receivables	**150,435**	39,251	–	–	**111,184**	56,487	–	–	**54,697**
Pension	**22,844**	(6,203)	–	–	**29,047**	3,635	–	–	**25,412**
Finance leases	**7,021**	(7,679)	–	–	**14,700**	(29,052)	–	–	**43,752**
AFS investments in shares	**5,963**	–	5,963	–	**–**	–	(4,424)	–	**4,424**
Other	**6,318**	(13,235)	–	19,034	**519**	(703)	–	–	**1,222**
Total deferred tax assets	**753,869**	**152,220**	**5,963**	**63,528**	**532,158**	**111,441**	**(4,424)**	**(63,528)**	**488,669**
Deferred tax liabilities									
Property, plant and equipment	**727,372**	372,942	(157,096)	–	**511,526**	368,373	(107,902)	–	**251,055**
AFS investments in shares	**–**	–	(135)	–	**135**	–	135	–	**–**
Other	**2,981**	(711)	–	–	**3,692**	(2,178)	–	–	**5,870**
Total deferred tax liabilities	**730,353**	**372,231**	**(157,231)**	**–**	**515,353**	**366,195**	**(107,767)**	**–**	**256,925**

Unrecognised deferred tax assets are presented as follows:

	31/12/2011	31/12/2010
Temporary differences associated with losses of subsidiaries and associates	203,523	246,928
Temporary differences associated with impairment of property, plant and equipment	6,296	6,296
Tax losses carried forward	–	8,659
Total	**209,819**	**261,883**

9. CASH AND CASH EQUIVALENTS

	31/12/2011	31/12/2010
Current bank accounts, including:		
RUB-denominated	411,885	3,712,489
USD-denominated	10	39
Cash equivalents	653	675
Total	**412,548**	**3,713,203**

The summary below shows credit quality analysis and outstanding balances for cash and cash equivalents:

Bank name	Rating agency	Rating	31/12/2011	31/12/2010
JSC VTB	Fitch Ratings	BBB	151,179	2,005
JSC Rosselkhozbank	Fitch Ratings	BBB	76,630	58,862
JSC Gazprombank	S&P	BB+	62,763	3,551,793
JSC Sberbank of the Russian Federation	Fitch Ratings	BBB	58,202	39,281
JSC Alfa-bank	S&P	BB+	29,659	19,549
JSC Bank of Moscow	Fitch Ratings	BBB-	20,836	40,730
JSC MIB	–	–	12,967	696
JSC AKB Rosbank	Fitch Ratings	BBB+	–	3
Other			312	284
Total			**412,548**	**3,713,203**

10. CAPITAL AND RESERVES

Share capital

	Ordinary shares		Preferred shares	
	Number of shares, in thousands	Balance	Number of shares, in thousands	Balance
Balance at beginning and end of the year	1,912,505,578	19,125,056	75,272,939	752,729

The holders of the Company's ordinary shares of RUB 0.01 at par, carry one vote per share on the shareholders meetings and the right to dividends, which are subject for approval at shareholders meeting.

The holders of the Company's preferred shares of RUB 0.01 at par, are entitled to receive (per one share) 40% from net profit (determined under local accounting standards) divided by number of ordinary and preferred shares of the Company during reporting period but not less than dividends declared for the Company's ordinary shares. They do not have right to vote at the shareholders meetings if dividends were declared, and their shares carry one vote per share, if dividends were not declared.

In case of the Company's liquidation, the holders of preferred shares are entitled to receive any declared unpaid dividends and then the nominal value of shares ("liquidation value"). Following this, holders of preferred shares participate equally with the holders of the Company's ordinary shares in the distribution of the remaining assets.

Share premium

Share premium was recorded in 2008, as a result of issuance of additional ordinary shares and excess of cash consideration received over their par value.

Merger reserve

Merger reserve was created in 2005 in the course of re-organisation of OJSC RAO UES Russia operations and formation of the Group.

Dividends and retained earning

The statutory financial statements of the Company are the basis for profit distribution and other appropriations. As at 31 December 2011 and 2010, the Company's retained earnings in the financial statements prepared under legislation and accounting and reporting standards of the Russian Federation, which may potentially be distributed between shareholders in the form of dividends, amounted to RUB 4,993,061 thousand and RUB 4,470,196 thousand, respectively.

During the years ended 31 December 2011 and 2010, the Company declared dividends in respect of preferred shares, which were fully paid in the same year.

	Year ended 31/12/2011		Year ended 31/12/2010	
	Dividends per share, RUB	Declared dividends	Dividends per share, RUB	Declared dividends
Dividends declared	0.00032214	24,248	0.00042913	32,302

In respect of the year ended 31 December 2011, Board of Directors proposed to shareholders to approve dividends of RUB 0.00018678 per preferred share. Dividends have not been recorded as liabilities in these consolidated financial statements. Dividends in the total amount of RUB 14,060 thousand are payable in 2012 and will not have any tax consequences for the Group.

Earnings per share

Earnings per share for the years ended 31 December 2011 and 2010 were calculated based on weighted average number of the Company's ordinary shares outstanding during respective periods and profit or loss for the respective year, attributable to owners of the Company and presented as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
Profit for the year attributable to owners of the Company	**879,037**	**2,434,431**
Less: earnings attributable to the holders of the Company's preferred shares	(14,060)	(24,248)
Profit for the year used in the calculation of earnings per share	**864,977**	**2,410,183**
Weighted average number of the Company's ordinary shares, in thousands of shares	1,912,505,578	1,912,505,578
Earnings per share, in RUB	**0.0005**	**0.0013**

11. LOANS AND BORROWINGS

	31/12/2011		31/12/2010	
	Rate, as %	Balance	Rate, as %	Balance
Unsecured bank loans:				
JSC Gazpombank	5.80 – 9.00	2,577,011	8.50 – 12.50	1,039,666
JSC Sberbank of the Russian Federation	5.45 – 8.60	1,808,816	6.10 – 7.70	1,172,749
JSC Royal Bank of Scotland	3.50	482,942	3.50	457,153
Corporate bonds	8.00	11,918	7.60 – 8.00	11,918
Interest accrued		23,443	N/A	4,090
		4,904,130		**2,685,576**
Long-term portion of loans and borrowings		**1,403,258**		**627,313**
Current portion repayable within one year and shown under current liabilities		**3,500,872**		**2,058,263**

in thousands of Russian Roubles, unless otherwise stated

Unused credit facilities

The following committed credit facilities provided by the financial institutions to the Group were unused at the end of respective reporting periods:

	31/12/2011	31/12/2010
Unsecured credit facilities and credit lines	11,082,942	9,957,154
Overdrafts	500,000	500,000
Secured credit facilities and credit lines	–	4,481,700
Less: amounts used by the Group	(4,868,769)	(2,669,568)
Total unused credit facilities	**6,714,173**	**12,269,286**

All bank loans, except for a USD-denominated loan provided by JSC Royal Bank of Scotland, are RUB-denominated and with fixed interest rates.

Certain bank loans are subject to the restrictive covenants, including but not limited to:

- prohibition of issuance of additional Group's promissory notes and debentures without bank pre-approval;
- pre-approval of guaranties issued.

All bank loan agreements have accelerated clauses, allowing creditors to request early repayment of outstanding amounts in case of non-compliance with these covenants.

The following items of property, plant and equipment and inventories were pledged to secure bank loans and certain unused credit facilities of the Group:

	31/12/2011	31/12/2010
Property, plant and equipment (refer to note 5)	–	838,508
Inventories (refer to note 6)	–	560,739
Total	**–**	**1,399,247**

12. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Due within one year	38,391	50,696	35,102	38,399
Due from second to fifth year	–	38,391	–	35,102
	38,391	**89,087**	**35,102**	**73,501**
Less: future finance charge	(3,289)	(15,586)	N/A	N/A
Present value of lease obligations	**35,102**	**73,501**	**35,102**	**73,501**
Total long-term portion of finance leases obligations			**–**	**35,102**
Total short-term portion of finance leases obligations			**35,102**	**38,399**

The Group leases property, plant and equipment under a number of finance lease agreements. The average lease term is 59 months. For the year ended 31 December 2011, the weighted average effective interest rate was 23% (2010: 23%). All leases are on a fixed repayment basis and denominated in RUR. The Group's obligations under finance leases are secured by the lessors' title to the leased assets, carrying value of which as at 31 December 2011 was RUB 97,830 thousand (2010: RUB 199,061 thousand).

in thousands of Russian Roubles, unless otherwise stated

13. PENSION LIABILITIES

The Group operates partially funded defined benefit pension plan for qualifying employees. The actuarial valuation of the Group's defined benefit obligations as at 31 December 2011 and 2010 was performed by an independent actuary.

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

	Year ended 31/12/2011	Year ended 31/12/2010
Interest on obligation	70,751	77,033
Current service cost	34,534	49,756
Past service cost	9,255	9,255
Actuarial gains	(5,850)	–
Gain arising from curtailment	–	(48,107)
Total	**108,690**	**87,937**

Curtailment gain recognised for the year ended 31 December 2010 was due to decrease in operations in Tula and Belgorod regions with a corresponding decrease in number of employees.

Amounts included in the statement of financial position arising from the Group's defined benefit plan were as follows:

	31/12/2011	31/12/2010
Present value of unfunded defined benefit obligations	759,064	907,065
Actuarial gains/(losses) not recognised	82,472	(95,114)
Past service costs not recognised	(39,595)	(48,850)
Total	**801,941**	**763,101**

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

	31/12/2011	31/12/2010
Balance at beginning of the year	**907,065**	**855,920**
Interest on obligation	70,751	77,033
Current service cost	34,534	49,756
Actuarial (gains)/losses	(183,436)	54,250
Benefits paid	(69,850)	(75,470)
Gain arising from curtailment	–	(54,424)
Balance at end of the year	**759,064**	**907,065**

In 2012, the Group expects to make a contribution of RUB 86,953 thousand (2011: RUB 75,887 thousand) to its defined benefit plan.

The history of experience adjustments is presented as follows:

	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007
Present value of defined benefit obligations	759,064	907,065	855,920	891,631	863,321
Experience adjustments on plan liabilities	(137,001)	48,000	40,502	110,589	7,322

in thousands of Russian Roubles, unless otherwise stated

14. ACCOUNTS PAYABLE AND ACCRUALS

	31/12/2011	31/12/2010
Trade accounts payable	1,188,490	1,264,096
Dividends payable	4,208	2,900
Other accounts payable	48,389	44,542
Total financial liabilities	**1,241,087**	**1,311,538**
Accrued employee benefits	646,179	513,093
Advances received	257,376	332,716
Total non-financial liabilities	**903,555**	**845,809**
Total	**2,144,642**	**2,157,347**

Accrued employee benefits included unpaid salaries and wages, provisions for unused vacations and bonuses.

The average credit period for the Group's suppliers is 19 days (2010: 19 days).

15. PROVISION FOR LEGAL CLAIMS

	31/12/2011	31/12/2010
Balance at beginning of the year	**644,385**	**807,215**
Additional provision recognised	24,855	28,511
Reversal of previously recognised provision	(323,764)	(153,271)
Settled in cash	–	(38,070)
Balance at end of the year	**345,476**	**644,385**

16. OTHER TAXES PAYABLE

	31/12/2011	31/12/2010
Value added tax	297,621	641,988
Property tax	115,908	67,694
Social security taxes	96,907	164,552
Personal income tax	36,121	33,289
Land tax	23,290	16,908
Other taxes	2,019	2,376
Total	**571,866**	**926,807**

17. STAFF COSTS

	Year ended 31/12/2011	Year ended 31/12/2010
Wages and salaries	3,684,205	3,407,781
Social security taxes	1,113,331	807,939
Financial assistance to current and retired employees	172,880	166,389
Defined benefit expenses	37,939	10,904
Total	**5,008,355**	**4,393,013**

In 2011, contribution to the Pension Fund of the Russian Federation amounted to RUB 849,838 thousand (2010: RUB 616,707 thousand).

in thousands of Russian Roubles, unless otherwise stated

18. FINANCE COSTS, NET

	Year ended 31/12/2011	Year ended 31/12/2010
Interest expense on loans and borrowings	210,155	46,935
Interest expense on pension liabilities	70,751	77,033
Interest expense on obligations under finance leases	12,297	42,867
Total interest expense	**293,203**	**166,835**
Less: amount included in the cost of qualifying assets	(160,696)	(7,644)
Total finance costs	**132,507**	**159,191**

19. INCOME TAX

Income tax recognised in other comprehensive income

Deferred taxes arising on income and expenses recognised in other comprehensive income are presented as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
Impairment of property, plant and equipment	157,096	107,902
Revaluation of available-for-sale investments	6,098	(4,559)
Total	**163,194**	**103,343**

Income tax recognised in profit or loss

	Year ended 31/12/2011	Year ended 31/12/2010
Current income tax	88,032	499,776
Deferred tax expense relating to origination and reversal of temporary differences	220,011	254,754
Total	**308,043**	**754,530**

A reconciliation of statutory income tax to the amount of actual income tax expense recorded in profit or loss is presented as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
Profit for the year	**1,187,080**	**3,184,219**
Income tax at statutory rate of 20%	237,416	636,844
Expenses not deductible for tax purposes	79,286	117,901
Effect of previously unrecognised deferred tax assets	(8,659)	(215)
Total	**308,043**	**754,530**

20. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Pervomayskaya Thermal Water Plant ("PTWP")

In 2010, the Group made a decision to dispose of PTWP. On 29 June 2010, the Group concluded preliminary sale agreement and immediately after that performed an impairment test in respect of assets to be disposed of. As a result of such test, previously recognised impairment loss in the amount of RUB 262,761 thousand was reversed. PTWP's assets with a carrying value of RUB 638,211 thousand were reclassified to non-current assets held for sale. Property, plant and equipment with a carrying value of RUB 538,211 thousand and inventory with a carrying value of RUB 30,777 thousand were disposed of during the second half of 2010; and the remaining portion of assets that were presented as non-current assets held for sale as at 31 December 2010 were disposed of during December 2011.

in thousands of Russian Roubles, unless otherwise stated

Establishment of LLC Kursk Energia and disposal of assets

On 3 November 2010, the Board of Directors approved a set of transactions associated with newly created joint ventures, LLC Kursk Energia and Regional Energy Company B.V.:

- Sale of property, plant and equipment with a carrying value of RUB 107,572 thousand to LLC Kursk Energia for a cash consideration of RUB 671,679 thousand;
- Simultaneous contribution by the Group of RUB 468,703 thousand in cash, together with the Group's interest in LLC Kursk Energia, to acquire 50.0% minus one share interest in share capital of a newly created joint venture Regional Energy Company B.V., a holding company.

Disposal of assets and subsequent contribution of the proceeds into share capital of Regional Energy Company B.V. represented in substance one transaction – contribution of property, plant and equipment into LLC Kursk Energia. Due to postpone of liberalisation of heat and distribution market in the Russian Federation, planned transactions presented above, were delayed. Accordingly, as at 31 December 2011, assets of LLC Kursk Energia were reclassified and presented within property, plant and equipment.

Assets, which were expected to be disposed of during 2011, and presented within non-current assets held for sale as at 31 December 2010 are presented as follows:

	PTWP	Kursk Energia	Total
Property, plant and equipment	100,000	107,572	**207,572**
Deferred tax assets	19,034	44,494	**63,528**
Total	**119,034**	**152,066**	**271,100**

Management of the Group determined that sale of PTWP and contribution of assets to Kursk Energia do not constitute discontinued operations.

21. RELATED PARTIES

Related parties include shareholders, associates, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries, in the ordinary course of business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in these consolidated financial statements.

During 2011 and 2010, the Group purchased goods and services from related parties as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
LLC SK Soglasiye	63,327	42,088
JSC Technotest-energo	9,099	8,251
	72,426	**50,339**

During 2011, the Group received insurance compensation from LLC SK Soglasiye in the amount of RUB 2,546 thousand (2010: 18,876 thousand).

During 2011, the Group provided a loan to LLC Kursk Energia, a Group's associate, in the amount of RUB 6,950 thousand. The loan bore interest at 9.117% per annum and initially matured on 31 December 2011. At 31 December 2011, loans issued to LLC Kursk Energia amounted to RUB 150 thousand (net of impairment provision of RUB 6,800 thousand) and were presented within other current assets. Except for loan to LLC Kursk Energia, as presented above, there were no significant outstanding balances with related parties as at 31 December 2011 and 2010.

in thousands of Russian Roubles, unless otherwise stated

Compensation of key management personnel

Remuneration of key management personnel of the Group is presented as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
Salary and performance bonuses	128,779	100,722
Termination benefits	3,504	–
Post-employment benefits	–	1,068
Other benefits, including social security taxes	4,535	3,046
Total	**136,818**	**104,836**

As at 31 December 2011, unsettled obligations with regard to compensation of key management personnel amounted to RUB 5,156 thousand (2010: RUB 4,716 thousand).

22. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2011, the Group's contractual capital commitments, including VAT, amounted to RUB 5,873,460 thousand (2010: RUB 7,914,834 thousand).

Future capital expenditures under contractual obligations relate to the following projects:

	31/12/2011	31/12/2010
Enlargement of Novomoskovskaya GRES	1,669,179	4,879,997
Reconstruction of Dyagilevskaya TETs	1,344,936	–
Reconstruction of Alexinskaya TETs	1,344,936	–
Reconstruction of Kurskaya TETs	986,562	–
Reconstruction of Livenskaya TETs	177,422	1,038,821
Reconstruction of the boiler in North-West region of the town of Kursk	–	1,377,090
Reconstruction of Kaluzhskaya TETs	–	283,671
Other	350,425	335,255
Total	**5,873,460**	**7,914,834**

Obligations for power capacity delivery in 2011-2015

According to the agent agreements signed on 19 October 2010, the Group undertook an obligation to deliver to the market additional capacity during the period from 2011 to 2015. Planned and actual dates for capacity supplies for objects covered by the agreement are presented as follows:

	Planned date	Actual date
The boiler in North-West region of the town of Kursk	01/05/2011	01/07/2011
Kaluzhskaya TETs	01/05/2011	01/08/2011
Livenskaya TETs	01/12/2012	n/a
Novomoskovskaya GRES	01/12/2012	n/a
Dyagilevskaya TETs	30/06/2014	n/a
Aleksinskaya TETs	30/09/2014	n/a
Voronezhskaya TETs-1	30/09/2015	n/a
Kurskaya TETs-1	31/12/2015	n/a

During 2011, the Company has breached its commitments in respect of capacity delivery dates on two objects, due to delays in works performed by its contractors. The Company was penalised with fines in the amount of RUB 77,482 thousand. This amount was recorded within operating expenses. During the second half of 2011, the Group received reimbursement of these losses from the contractors. Total amount of compensation received of RUB 200,002 thousand was recognised within other operating income.

in thousands of Russian Roubles, unless otherwise stated

Operating leases: Group as a lessee

The land on which the Group's production facilities are located is partially owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2058. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities. The Group also leases other property, plant and equipment. The respective lease agreements have an average life of 1 to 50 years and generally do not have renewal option at the end of the term. There are no restrictions placed upon the lessee by entering into these agreements.

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31/12/2011	31/12/2010
Due within one year	254,813	248,833
Due from second to fifth year	659,840	659,441
Due thereafter	2,676,181	2,184,453
Total	**3,590,834**	**3,092,727**

Purchase commitments

The Group entities concluded a number of long-term contracts with JSC Gazprom and its subsidiaries for purchasing in 2010- 2012 limited gas with guaranteed volumes and delivery terms. Purchase volumes are determined on the basis of estimated production demands. Purchase price of gas is determined by *Federal Service on Tariffs*. Gas demand that is not covered by the limited volumes set up by JSC Gazprom shall be satisfied by commercial gas purchases under short-term (up to one month) supply contracts entered into by results of tenders held on the electronic platform of LLC Mezhregiongaz and at prices determined by the tender.

Social commitments

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions to development and maintenance of housing, hospitals, transport services, recreation and other social needs in the geographical areas in which it operates.

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

Russian tax authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the regions in which it operates. The Group's operations involve the discharge of materials and contaminants into the environment that could potentially impact flora and fauna, and give rise to other environmental concerns. The Group's management believes that its production facilities are in compliance with the existing environmental legislation of the regions in which it operates. However, environmental laws and regulations continue to evolve.

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The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology and upgrade production equipment to meet more stringent standards.

Insurance

The insurance industry in the Russian Federation is at developing stage and many forms of insurance protection common in developed markets are not generally available.

The Group's entities do not have full coverage for property damage, business interruption and third party liabilities. Until the Group obtains adequate insurance coverage, there is a risk that losses from business interruption and third party liabilities could have a material adverse effect on the Group's operations and financial position.

23. FINANCIAL RISK MANAGEMENT

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 and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Consistent with other companies in the industry, the Group monitors capital on the basis of the gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and borrowings and obligations under finance leases less cash and cash equivalents, as shown in the consolidated statement of financial position. Capital is calculated as total equity, as shown in the consolidated statement of financial position.

	31/12/2011	31/12/2010
Debt	4,939,232	2,759,077
Less: cash and cash equivalents	(412,548)	(3,713,203)
Net debt	**4,526,684**	**(954,126)**
Equity	30,283,865	30,081,433
Gearing ratio	**0.15**	**(0.03)**

The Group's policy of capital risk management is based on the following financial ratios: debt to adjusted EBITDA ratio and borrowing costs coverage by adjusted EBITDA. Adjusted EBITDA equal to operating profit adjusted for depreciation and amortisation charge and impairment of property, plant and equipment or its reversal, as most significant non-cash items. Borrowing costs consist of interest on loans and borrowings and obligations under finance leases.

	31/12/2011	31/12/2010
Operating profit	1,313,018	3,288,401
Impairment/(reversal of impairment) of property, plant and equipment	207,405	(2,737,628)
Depreciation and amortisation	2,827,347	3,286,183
Adjusted EBITDA	**4,347,770**	**3,836,956**
Debt	4,939,232	2,759,077
Borrowing costs	61,756	82,158
Debt / Adjusted EBITDA	**1.14**	**0.72**
Borrowing costs / Adjusted EBITDA	**0.01**	**0.02**

in thousands of Russian Roubles, unless otherwise stated

Major categories of financial instruments

The Group's principal financial liabilities comprise loans and borrowings, finance leases and accounts payable. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable, available-for-sale investments and cash and cash equivalents.

	31/12/2011	31/12/2010
Financial assets		
Available-for-sale investments	44,952	75,440
Trade and other accounts receivable	6,222,974	4,494,714
Cash and cash equivalents	412,548	3,713,203
Total financial assets	**6,680,474**	**8,283,357**
Financial liabilities		
Loans and borrowings	4,904,130	2,685,576
Obligations under finance leases	35,102	73,501
Trade and other accounts payable	1,241,087	1,311,538
Total financial liabilities	**6,180,319**	**4,070,615**

The main risks arising from the Group's financial instruments are foreign currency, liquidity and credit risks.

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 majority of the Group financial assets and liabilities are nominated in Russian Roubles. At the same time loan from JSC Royal Bank of Scotland (refer to note 11) and certain cash in bank accounts are nominated in US Dollars.

The table below details the Group's sensitivity analysis to a 10% increase and decrease in the Russian Rouble against the US Dollar. The analysis was applied to all monetary items at the end of each reporting period denominated in US Dollars.

	31/12/2011		31/12/2010	
	+10%	**-10%**	**+10%**	**-10%**
Profit /(loss) before income tax	(48,293)	48,293	(45,711)	45,711

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due. 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.

Presented below is the maturity profile of the Group's loans and borrowings, finance leases obligations and accounts payable as at 31 December 2011 based on undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three to twelve months	From one to five years
Loans and borrowings	**5,299,429**	21,837	2,325,419	1,323,110	1,629,063
Obligations under finance leases	**38,391**	9,044	2,636	26,711	–
Trade and other accounts payable	**1,241,087**	603,736	89,546	547,805	–
Total	**6,578,907**	**634,617**	**2,417,601**	**1,897,626**	**1,629,063**

in thousands of Russian Roubles, unless otherwise stated

Presented below is the maturity profile of the Group's loans and borrowings, finance leases obligations and accounts payable as at 31 December 2010 based on undiscounted contractual payments, including future interest payments:

	Total	Due within one month	Due from one to three months	Due from three to twelve months	From one to five years
Loans and borrowings	**2,804,243**	503,341	890,518	733,953	676,431
Obligations under finance leases	**89,087**	9,507	3,531	37,658	38,391
Trade and other accounts payable	**1,311,538**	596,582	496,251	218,705	–
Total	**4,204,868**	**1,109,430**	**1,390,300**	**990,316**	**714,822**

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses of the Group.

Trade receivables consist of a large number of customers spread across different industries and geographical areas of the Russian Federation. The Group's credit risk in respect of significant counterparties, with outstanding balances representing more than 4% of total accounts receivable and advances paid balance, was disclosed in note 7.

The maximum exposure of the Group to credit risk is presented as follows:

	31/12/2010	31/12/2009
Trade and other accounts receivable	6,222,974	4,494,714
Cash and cash equivalents	412,548	3,713,203
Total	**6,635,522**	**8,207,917**

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying value of available-for-sale investments determined with reference to quoted market prices, approximate their fair value. Management of the Group believes that the carrying value of other financial instruments, which are accounted for at amortised cost, such as cash and cash equivalents (refer to note 9), accounts receivable (refer to note 7), loans and borrowings (refer to note 11), obligations under financial leases (refer to note 12) and accounts payable (refer to note 14) approximate their fair value, except for corporate bonds information about fair value of which is presented as follows:

	31/12/2011		31/12/2010	
	Carrying value	Fair value	Carrying value	Fair value
Corporate bonds	11,918	11,799	11,918	11,918

Fair value of corporate bonds was determined by reference to the market quotations.