RAO ENERGY SYSTEM OF EAST GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AND INDEPENDENT AUDITOR'S REPORT**

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

Independent Auditor's Report

To the Shareholders and Board of Directors of Joint Stock Company "RAO Energy System of East":

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

26 April 2012
Moscow, Russia

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RAO Energy System of East Group
Consolidated Statement of Financial Position as at 31 December 2011
(in millions of Russian Rubles unless noted otherwise)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	7	49,671	57,049
Investments in associates	8	947	38
Available-for-sale financial assets	9	785	1,605
Deferred tax assets	17	180	38
Other non-current assets	10	839	889
Total non-current assets		**52,422**	**59,619**
Current assets			
Cash and cash equivalents	11	4,330	3,853
Accounts receivable and prepayments	12	22,623	16,316
Inventories	13	16,188	13,800
Other current assets	14	6,875	8,186
Assets of disposal group classified as held for sale	15	27,873	-
Total current assets		**77,889**	**42,155**
TOTAL ASSETS		**130,311**	**101,774**
EQUITY AND LIABILITIES			
Equity			
Share capital	16	21,558	21,558
Revaluation reserve on property plant and equipment		10,394	-
Retained losses and other reserves		(14,422)	(4,402)
Equity attributable to the shareholders of OJSC RAO Energy System of East		**17,530**	**17,156**
Non-controlling interest		11,637	8,201
TOTAL EQUITY		**29,167**	**25,357**
Non-current liabilities			
Deferred income tax liabilities	17	4,087	1,786
Non-current debt	18	34,102	20,287
Other non-current liabilities	20	9,246	9,029
Total non-current liabilities		**47,435**	**31,102**
Current liabilities			
Current debt and current portion of non-current debt	18	18,061	23,713
Accounts payable and accruals	21	18,059	16,611
Current income tax payable		245	721
Other taxes payable	22	4,251	4,270
Liabilities of disposal group classified as held for sale	15	13,093	-
Total current liabilities		**53,709**	**45,315**
TOTAL LIABILITIES		**101,144**	**76,417**
TOTAL EQUITY AND LIABILITIES		**130,311**	**101,774**

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РАО Энергетические системы Востока» г. Благовещенск

General Director S. N. Tolstoguzov

Chief Accountant A. P. Vaynilavichute

26 April 2012

The accompanying notes are an integral part of these consolidated financial statements.

RAO Energy System of East Group
Consolidated Income Statement for the year ended 31 December 2011
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Revenues	23	124,692	114,752
Government grants	24	9,130	8,364
Expenses	25	(126,569)	(116,347)
Impairment of property, plant and equipment	7	(20,262)	(4,282)
Operating (loss)/profit		**(13,009)**	**2,487**
Finance income	26	819	3,505
Finance expenses	26	(4,231)	(6,532)
Share of income of associates	8	5	-
Loss before income tax		**(16,416)**	**(540)**
Total income tax expense	17	(282)	(335)
Loss for the year from continuing operations		**(16,698)**	**(875)**
Discontinued operations		-	**6,067**
(Loss)/profit for the year		**(16,698)**	**5,192**
Attributable to:			
Shareholders of OJSC RAO Energy System of East		(9,914)	4,023
Non-controlling interest		(6,784)	1,169
Loss per share from loss from continuing operations attributable to the shareholders of OJSC RAO Energy System of East – basic and diluted (in Russian Rubles per share)	27	(0.2299)	(0.0174)
Earnings per share from profit from discontinued operations attributable to the shareholders of OJSC RAO Energy System of East – basic and diluted (in Russian Rubles per share)	27	-	0.1107
Weighted average number of ordinary shares (in thousands)		41,041,754	41,041,754
Weighted average number of preference shares (in thousands)		2,075,149	2,075,149

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26 April 2012

RAO Energy System of East Group
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011
(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
(Loss)/profit for the year		**(16,698)**	**5,192**
Other comprehensive income after income tax:			
Change in fair value of available-for-sale financial assets, net of tax	9, 17	(183)	(1,583)
Revaluation of property, plant and equipment, net of tax	7, 17	20,720	-
Total comprehensive income for the year		**3,839**	**3,609**
Attributable to:			
Shareholders of OJSC RAO Energy System of East		374	3,225
Non-controlling interest		3,465	384

General Director — S. N. Tolstoguzov

Chief Accountant — A. P. Vaynilavichute

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «РАО Энергетические системы Востока» г. Благовещенск

26 April 2012

Consolidated Statement of Changes in Equity for the year ended 31 December 2011
(in millions of Russian Rubles unless noted otherwise)

	Note	Share capital	Available-for-sale financial assets	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 01 January 2010		**21,558**	**1,056**	**-**	**(8,673)**	**13,941**	**11,609**	**25,550**
Profit for the year		-	-	-	4,023	4,023	1,169	5,192
Other comprehensive income								
Fair value losses on available-for-sale financial assets	9	-	(998)	-	-	(998)	(981)	(1,979)
Income tax benefit recorded in other comprehensive income		-	200	-	-	200	196	396
Total other comprehensive income		-	(798)	-	-	(798)	(785)	(1,583)
Total comprehensive income for 2010		-	(798)	-	4,023	3,225	384	3,609
Effect of changes in non-controlling interest	4	-	-	-	(10)	(10)	(3,786)	(3,796)
Dividends declared		-	-	-	-	-	(6)	(6)
Balance as at 31 December 2010		**21,558**	**258**	**-**	**(4,660)**	**17,156**	**8,201**	**25,357**
Loss for the year		-	-	-	(9,914)	(9,914)	(6,784)	(16,698)
Other comprehensive income								
Fair value loss on available-for-sale financial assets	9	-	(133)	-	-	(133)	(96)	(229)
Income tax benefit recorded in other comprehensive income (available-for-sale financial assets)		-	27	-	-	27	19	46
Revaluation of fixed assets	7	-	-	12,993	-	12,993	12,908	25,901
Income tax recorded in other comprehensive income (revaluation of fixed assets)		-	-	(2,599)	-	(2,599)	(2,582)	(5,181)
Total other comprehensive income		-	(106)	10,394	-	10,288	10,249	20,537
Total comprehensive income for 2011		-	(106)	10,394	(9,914)	374	3,465	3,839
Dividends declared	16	-	-	-	-	-	(29)	(29)
Balance as at 31 December 2011		**21,558**	**152**	**10,394**	**(14,574)**	**17,530**	**11,637**	**29,167**

General Director S. N. Tolstoguzov

Chief Accountant A. P. Vaynilavichute

«РАО Энергетические системы Востока» ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * г.Благовещенск *

26 April 2012

The accompanying notes are an integral part of these consolidated financial statements.

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax		**(16,416)**	**(540)**
Depreciation of property, plant and equipment	25	6,726	3,949
Impairment losses on property, plant and equipment	7	20,262	4,282
(Income)/loss on disposal of property, plant and equipment	25	(175)	60
Finance cost, net		3,463	2,351
(Reversal)/Accrual of impairment of accounts receivable	25	(1,297)	2,292
Other income		(254)	(39)
Operating cash flows before working capital changes and income tax paid		**12,309**	**12,355**
Working capital changes:			
Increase in accounts receivable and prepayments		(5,496)	(2,180)
Increase in inventories		(1,890)	(1,365)
Increase in accounts payable and accruals		1,729	3,307
Increase in other taxes payable		186	807
Increase in other non-current liabilities		1,043	906
Income tax paid		(821)	(1,027)
Net cash generated by operating activities		**7,060**	**12,803**
Net cash generated in operating activities - discontinued operations		**-**	**656**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(17,685)	(11,131)
Proceeds from sale of property, plant and equipment		387	321
Proceeds from sale of promissory notes and other investments		43	4,152
Purchase of associates and available-for-sale financial assets	8, 9	(400)	(300)
Interest received		694	758
Acquisition of subsidiaries, net of cash acquired		-	(28)
Disposal of subsidiaries		-	1,848
Issue of loans and deposits placed		(7,215)	(8,255)
Proceeds from issued loans and deposits		8,458	3,245
Net cash used in investing activities		**(15,718)**	**(9,390)**
Net cash used in investing activities - discontinued operations		**-**	**(1,335)**

(in millions of Russian Rubles unless noted otherwise)

	Note	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt		68,093	66,777
Repayment of debt		(55,154)	(67,777)
Interest paid		(3,636)	(4,845)
Dividends received/(paid)		-	(150)
Proceeds from shares issue	33	748	-
Finance lease payments		(839)	(803)
Net cash generated/(used) by financing activities		**9,212**	**(6,798)**
Net cash used in financing activities - discontinued operations		**-**	**(399)**
Increase/(Decrease) in cash and cash equivalents		**554**	**(4,463)**
Cash and cash equivalents at the beginning of the period	**11**	**3,853**	**8,316**
Cash and cash equivalents at the end of the period	**11, 15**	**4,407**	**3,853**

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General Director S. N. Tolstoguzov

Chief Accountant A. P. Vaynilavichute

26 April 2012

Note 1. RAO Energy System of East Group and its Operations

The Open Joint Stock Company RAO Energy System of East (hereinafter referred to as "the Company") was established on 1 July 2008 as a result of the reorganization of Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (hereinafter referred to as "RAO UES") through a spin-off in accordance with the decision approved by the Extraordinary General Meeting of Shareholders of RAO UES on 26 October 2007. As a result of the reorganization, the Company became a shareholder of a number of energy companies in the Far East region of Russia and a number of energy retail companies and non-core companies that were transferred to the Company according to the separation balance sheet. The consolidated financial statements present the financial performance of the Company and its subsidiaries (together referred to as the "Group" or "RAO Energy System of East Group"). The Group's principal subsidiaries are presented in Note 4.

The Company was incorporated and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations.

As at 31 December 2010 Russian Federation owned 52.68% of the Group and 47.32% was owned by non-controlling shareholders. According to the decision of the Government of Russian Federation, No. 1174-p dated 07 July 2011, the Government made an additional contribution to the share capital of OJSC RusHydro by shares of the Company. As a result as at 31 December 2011 the OJSC RusHydro owns 69.28% of the Company and 30.72% is owned by non-controlling shareholders. The ultimate controlling party is the Russian Federation. Related party transactions are detailed in Note 6.

The shares of the Company are traded on the MICEX-RTS.

The Group's principal business activities are:

- electricity and heat generation;
- electricity and heat distribution;
- electricity and heat retail;
- electricity wholesale.

The Company's registered office is located at 28, Shevchenko str., Blagoveshchensk, the Amur region, Russia, 675000.

The Group operates in the Far East region. The Far East Federal region comprises Republic of Sakha (Yakutiya), Kamchatka territory, Primorye territory, Khabarovsk territory, Amur region, Magadan region, Sakhalin region, Evreiskaya autonomous district and Chukotka autonomous district.

Relations with the State and current regulation. Many consumers of electricity and heat are controlled by or affiliated with the Russian Federation. Moreover, the Russian Federation controls a number of fuel suppliers and suppliers of other materials of the Group (Note 6).

The Government affects the Group's operations through:

- participation of its representatives in the Company's Board of Directors;
- tariff regulation within wholesale electricity and capacity as well as retail electricity and heat markets;
- agreement procedures for the Company's investment program, volume and sources of their financing, control over its implementation;
- existing antimonopoly regulation.

The Russian Federation directly influences the activities of the Group by regulating the wholesale purchases of electricity via the Federal Service of Tariff (hereinafter, "FST") and the retail sale of electricity, capacity and heat via Regional Energy Commission (hereinafter, "REC"). The activities of all generating companies are coordinated by OJSC "System Operator of the United Energy System" (hereinafter, "SO UES") to maintain the effective operation of the electricity market.

Tariffs on electricity and heat for the Group are set on the basis of regulatory documents covering the generation of electricity and heat and regulations applied to natural monopolies. The Government of the Russian Federation during the privatization of 1992 laid down conditions obligating RAO UES to supply Russian consumers with electricity and heat.

Operating environment. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2011, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. The Group's assets are tested for impairment using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

Note 2. Summary of significant accounting policies

Statement of compliance. These consolidated financial statements ("Financial Statements") have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") and its interpretations. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment and available-for-sale financial assets.

The same accounting policies and methods of computation were followed in the preparation of these Consolidated Financial Statements as were followed in the preparation of the Consolidated Financial Statements as at and for the year ended 31 December 2010, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying Financial Statements are based on the statutory records and adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The national currency of the Russian Federation is the Russian Rouble (RR), which is the functional currency of the Group entities and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million, unless otherwise stated.

Comparatives. Certain reclassifications have been made to prior period data to conform to the current year presentation used by parent company OJSC RusHydro. These reclassifications are not material and relate mainly to reclassifications made in cash and cash equivalents items, other non-current assets in respect of capitalisation of software and licenses, reclassifications between groups of property plant and equipment. All changes in accounting policy were accounted retrospectively, management believe that reclassifications had no significant influence on Financial Statements.

Consolidated financial statements. The consolidated Financial Statements comprise the financial statements of the Company and the financial statements of those entities whose operations are controlled by the Company. Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date what control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis at the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction directly in equity.

Transfers of subsidiaries from parties under common control. Transfers of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method the consolidated financial statements of the combined entity are 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. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated.

Investments in associates. Investments in associates and jointly controlled entities are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group. Associates are entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, based upon the percentage of ownership held by the Group and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as a share of a result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, and (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

Goodwill. Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Available-for-sale financial assets. Available-for-sale financial assets are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale financial assets. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income.

Foreign currency. Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the end of the reporting period, are translated into Russian Rubles at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss for the year.

As at 31 December 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between Russian Ruble and US Dollar (hereinafter referred to as "USD") was RR 32.20: USD 1.00 (31 December 2010: RR 30.48: USD 1.00), between Russian Ruble and Euro was RR 41.67: EUR 1.00 (31 December 2010: RR 40.33: EUR 1.00).

Property, plant and equipment. Starting from 1 January 2011 the Group changed its accounting policy for property, plant and equipment (except for assets under construction, office buildings and land) which are stated at revalued cost starting from 1 January 2011. Management of the Group assumes that use of revaluation model of property, plant and equipment provides more relevant information.

Prior to 1 January 2011 property, plant and equipment were stated at deemed cost as allowed by exemption of IFRS, less depreciation and impairment, where required. Deemed cost for the purposes of presenting IFRS financial statements for the first time by the predecessor was initially determined by a third party valuation as at 01 January 2008. Adjustments were made for additions, disposals and depreciation charges.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed when appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Increases in the carrying amount arising from revaluation of property, plant and equipment are credited to other comprehensive income, unless there is a decrease of the reserve previously recognised in the income statement. Decreases that offset previous increases of caring value of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to the consolidated income statement as an impairment loss. Any accumulated depreciation at the date of revaluation is eliminated against the gross amount of the asset.

The revaluation surplus included in equity is transferred directly to retained earnings when revaluation surplus is realised on disposal of the asset.

The Group charges deferred tax liabilities directly to other comprehensive income in respect of revaluation of property, plant and equipment that are recorded directly in other comprehensive income.

(In millions of Russian Rubles unless noted otherwise)

Costs of minor repairs (that take less than 12 months) and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated income statement as incurred. Depreciation of the assets under reconstruction and modernisation ceases if reconstruction period is estimated to take more than one year.

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

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method over their estimated useful lives.

The useful lives of property, plant and equipment are subject to annual assessment by management and if expectations differ from previous estimates, the changes of useful lives are accounted for as a change in an accounting estimate prospectively. Useful life of property, plant and equipment is assessed as critical accounting estimate and judgment in applying accounting policy.

The revised average useful life of revalued assets by type of facility, in years, were as follows:

Type of facility	Revised average starting from 1 January 2011	Average used before 1 January 2011
Production buildings	25-80	30-80
Facilities	10-100	30-80
Plant and equipment	5-40	5-30
Other	3-30	3-30

Depreciation is charged once an asset is available for service.

Impairment of property, plant and equipment. Impairment of property, plant and equipment is calculated as the difference between the carrying values of the net assets of cash-generating units, including where appropriate, investments, and their recoverable amounts. The recoverable amount is defined as the higher of an asset's fair value less costs to sell and its estimated value in use at the date the impairment review is undertaken. Fair value less costs to sell represents the amount that can be generated through the sale of assets. Value in use represents the present value of expected future cash flows discounted on a pre-tax basis, using the estimated cost of capital of the cash-generating unit.

Impairment reviews for property, plant and equipment are carried out when there is an indication that impairment may have occurred, or where it is otherwise required to ensure that property, plant and equipment are not carried above their estimated recoverable amounts (Note 7).

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred: (i) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems; (ii) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains; (iii) the counterparty considers bankruptcy or a financial reorganisation.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the consolidated statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (i) the assets are available for immediate sale in their present condition; (ii) the Group's management approved and initiated an active programme to locate a buyer; (iii) the assets are actively marketed for a sale at a reasonable price; (iv) the sale is expected within one year; and (v) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's consolidated statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal group as a whole is measured at the lower of carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified financial instruments and deferred taxes are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantially enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred tax movements are recorded in the income statement except when they are related to the items directly charged to the shareholders' equity. In this case deferred taxes are recorded as part of the shareholders' equity.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Debt. Debt is recognised initially at its fair value. Fair value is determined using the prevailing market rate of interest for a similar instrument, if significantly differs from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest rate method; any difference between the fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated income statement as an interest expense over the period of the debt obligation.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets.

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Pension and post-employment benefits. In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred and included in employee benefit expenses and payroll taxes in the consolidated income statement.

The Group also operates a defined benefit plan that covers the majority of its employees. Defined benefit plans estimate the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans operated by the Group is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid associated with the operation of the plans, and that have terms to maturity approximating the terms of the related pension liabilities.

The Group recognises past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the Group recognises past service cost immediately. Past service cost arises when the Group introduces a defined benefit plan or changes the benefits payable under an existing defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past service cost is recognised over that period, regardless of the fact that the cost refers to employee service in previous periods. Past service cost is measured as the change in the liability resulting from the amendment.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 percent of the value of plan assets or 10 percent of the defined benefit obligations are charged or credited to the consolidated income statement over the employees' expected average remaining working life.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so that as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risk and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Environmental liabilities. Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates exist.

Revenue recognition. Revenue is recognised on delivery of electricity and heat, provision of access to capacity, supply of non-utility services, completion of technological connection and on dispatch of goods during the period. Revenue amounts are presented exclusive of value added tax.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Earnings per share. The earnings per share are determined by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, excluding the average number of treasury shares held by the Group.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

***Treasury shares*.** Treasury shares are stated at weighted average cost. Any gains or losses arising on the disposal of treasury shares are recorded directly in shareholder’s equity.

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

Social expenditure. To the extent that the Group’s contributions to social programmes benefit the community at large without creating constructive obligations to provide such benefits in the future and are not restricted to the Group’s employees, they are recognised in the income statement as incurred.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Critical accounting estimates and judgments in applying accounting policies

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

Impairment of financial assets carried at amortised cost. Impairment is recognised as a result of the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 10 and 12.

Impairment of non-financial assets. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement to the extent it exceeds any previous revaluation surplus held in equity. An impairment loss recognised for an asset in prior years may be reversed if there has been a positive change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Accounting for impairment of non-financial assets includes impairment of property, plant and equipment. Non-financial assets including property, plant, and equipment are stated at fair value less accumulated depreciation and provision for impairment, where required.

The effect of these critical accounting estimates and assumptions is disclosed in Note 7.

Provisions for liabilities and charges. The Group accrues a provision for legal and other charges when its assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. The Group's estimates for provisions for liabilities and charges are based on currently available facts and the Group's estimates of the ultimate outcome or resolution of the liability in the future.

The effect of these critical accounting estimates and assumptions is disclosed in Note 28.

Tax contingencies. Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group's management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in the Consolidated Financial Statements.

The effect of these critical accounting estimates and assumptions is disclosed in Note 28.

Recognition of deferred tax assets. At each reporting date management assesses recoverability of deferred tax assets arising from operating losses and asset impairments in the context of the current economic environment, particularly when current and expected future profits have been adversely affected by market conditions. Management considers first the future reversal of existing deferred tax liabilities and then considers future taxable profits when evaluating deferred tax assets. The assessment is made on a taxpayer basis.

The effect of these critical accounting estimates and assumptions is disclosed in Note 17.

Useful life of property, plant and equipment. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets and other factors. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear, warranty terms as well as the environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates which can affect the reported income.

Assets held for sale and disposal groups. Management of the Group has exercised critical judgment in respect of the Group's subsidiary (Note 4) and reclassified it in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations* (Note 15), due to the fact that the sale was highly probable as at 31 December 2011. The Group's subsidiary, which is planned to be disposed of, relate to OJSC DEK Group's segment (Note 5). Management of the Group has plans for further development of the remaining part of the OJSC DEK Group's segment, and the same business also continues in other subsidiaries, so therefore this part of its business held for sale was accounted as a disposal group, not a discontinued operation.

Going concern. Management prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of the recent financial crisis on future operations of the Group (Note 29).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now provides disclosures of only individually or collectively significant transactions with government-related entities.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity [(this amendment was adopted previously by the Group in its prior year's financial statements)]; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

Note 3. New accounting pronouncements

The following new standards, interpretations and amendments to standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted:

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The new standard has no significant influence on the Group financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but has no impact on measurement of transactions and balances.

Amended IAS 19, Employee benefits (issued in June 2011 and effective for periods beginning on or after 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The changes will affect most entities that apply IAS 19 and may significantly change performance indicators and the volume of disclosures.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

(In millions of Russian Rubles unless noted otherwise)

Note 4. Principal subsidiaries

The following are the principal subsidiaries which have been consolidated into these consolidated financial statements as at 31 December 2011 and 31 December 2010.

	31 December 2011		31 December 2010	
Name	**Ownership %**	**Voting %**	**Ownership %**	**Voting %**
OJSC DEK	51.03	51.03	51.03	51.03
OJSC DGK (subsidiary of OJSC DEK)	51.03	100.00	51.03	100.00
OJSC DRSK (subsidiary of OJSC DEK)*	51.03	100.00	51.03	100.00
Isolated energy systems:				
OJSC Kamchatskenergo	98.68	98.68	98.68	98.68
OJSC Magadanenergo	49.00	64.39	49.00	64.39
OJSC Yakutskenergo**	47.39	55.32	47.39	47.39
OJSC Sakhalinenergo	55.55	55.55	55.55	55.55

* Group has classified this equity investment as assets held for sale and a disposal group (Note 15).
** Control is based on the ability to govern the operating policies of the company through the majority of votes of the Board of Directors.

Difference between the ownership interest and voting interest represents the effect of preference shares.

Changes in Group structure

During the year ended 31 December 2011

The resolution of the Russian Government No. 1174-p dated 07 July 2011 stipulated integration of grid assets of OJSC DRSK (subsidiary of the Company) into OJSC Federal Grid Company. On 19 December 2011 Management Board of the Company, (minutes No. 33 dated 19 December 2011) voted for a sale of all shares of OJSC DRSK to OJSC FGC to be considered and approved by Board of Directors of the Company and OJSC DEK. As completion of the transaction became highly probable, the Group has classified the equity investments in OJSC DRSK as assets held for sale and a disposal group (Note 15).

On 28 October 2011 Federal Service for Financial Markets registered additional emission of ordinary shares of OJSC Sakhalinskaya energy company. The Company increased its shareholding to 17.27% as at 31 December 2011 (Note 9). The Company has its representative on the board of directors of OJSC Sakhalinskaya energy company, participates in policy-making processes and provides essential technical information, related to capital construction activities. Based on this OJSC Sakhalinskaya energy company is considered as an associate of the Group as at 31 December 2011. Financial results of OJSC Sakhalinskaya energy company for year ended 31 December 2011 are immaterial for the Group's Consolidated Income statement.

During the year ended 31 December 2010

On 27 May 2010, the Group sold its interests in OJSC Altayenergosbyt, OJSC Mosenergosbyt, OJSC Peterburgskaya sbytovaya companiya, OJSC Saratovenergo, OJSC Tambovskaya energosbytovaya companiya, and OJSC Obyedinennaya energosbytovaya companiya. The acquirer was OJSC RusHydro. The consideration was fully paid in cash and amounted to RR 7,832 million. The disposal of the retail companies was carried out in accordance with the decision of the Board of Directors (minutes No. 40 dated 02 April 2010). The companies resold electricity and capacity in Moscow, Leningrad, Tambov, Saratov regions, and Altai territory.The amount of net assets of the retail companies at the date of disposal equalled to RR 6,611 million. Gain on disposal was recorded in amount of RR 5,326 million, related income tax amounted to RR 1,790 million. Up to the date of disposal net profit from operating activities of subsidiaries disposed amounted to RR 2,531 million. As a result of disposal non-controlling interest was reduced by RR 3,786 million.

Note 5. Segment information

In accordance with IFRS 8 Operating Segments the Group presents an analysis of its performance in the context of the operating segments.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance of the entity. The functions of CODM are performed by the Board of Directors of the Group.

Description of products and services from which each reportable segment derives its revenue

The Group is organised in five main operating segments:

- Segment 1 - OJSC DEK Group's segment (including OJSC DGK and subsidiaries) consists of companies that generate electricity and heat and provide transportation, distribution, construction and repair services in the Far East region.
- Segment 2 - OJSC Kamchatskenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution in the Kamchatka territory.
- Segment 3 - OJSC Magadanenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution services in the Magadan region and Chukotka autonomous district.
- Segment 4 - OJSC Sakhalinenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution in the Sakhalin region.
- Segment 5 - OJSC Yakutskenergo segment represents subsidiaries that generate electricity and heat and provide transportation and distribution services in the Republic of Sakha (Yakutiya).

Included in Segment 1 is OJSC DRSK that classified as a disposal group (Note 15).

The Group also includes entities supporting Group's operations which are not considered as separate by the CODM. The entities render financial, managerial, repair and maintenance and other (such as educational, recreation, etc.) services to the Group and external parties.

Factors that management used to identify the reportable segments

The Group's segments represent five sub-holdings which were created mainly in accordance with different geographical areas. The CODM monitors the operating results of its sub-holdings/business units separately for the purpose of making decisions about resource allocation and performance assessment.

Measurement of operating segment profit or loss, assets and liabilities

Segment performance is evaluated based on gross profit or loss and is measured under RAR which differs significantly from the gross profit or loss in the IFRS consolidated financial statements. The differences between the measurements of reportable segment's profit or losses, assets and liabilities and Group's profit and losses, assets and liabilities are:

- income tax is not allocated to the segments;
- liabilities for the Group's post-employment obligations are not recognized;
- provisions for accounts receivable are recognized based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investments in associates are not accounted for using the equity method;
- government grants are classified as other income;
- impairment of property, plant and equipment is not considered;
- other intercompany assets and liabilities balances are not eliminated.

Transactions between the operating segments are made on normal commercial terms and conditions. Sales between segments are carried out at arm's length. Revenue from external parties reported to the CODM is measured in a manner consistent with that in the income statement and the statement of comprehensive income.

(In millions of Russian Rubles unless noted otherwise)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

	Segment 1	**Segment 2**	**Segment 3**	**Segment 4**	**Segment 5**	**Other**	**Reconciliation**	**Total**
2011								
External revenues	78,176	9,763	8,666	7,508	18,724	2,132	(277)	124,692
Revenues from other segments	4,625	6	180	11	873	996	(6,691)	-
Government grants	-	-	-	-	-	-	9,130	9,130
Total revenues	**82,801**	**9,769**	**8,846**	**7,519**	**19,597**	**3,128**	**2,162**	**133,822**
Other operating expenses	(80,319)	(12,617)	(9,849)	(7,742)	(20,751)	(3,848)	8,557	(126,569)
Incl. depreciation & amortization	(4,759)	(277)	(435)	(378)	(1,937)	(285)	1,345	(6,726)
Impairment losses on property, plant and equipment	-	-	-	-	-	-	(20,262)	(20,262)
Segment result	**2,482**	**(2,848)**	**(1,003)**	**(223)**	**(1,154)**	**(720)**	**(9,543)**	**(13,009)**

	Segment 1	**Segment 2**	**Segment 3**	**Segment 4**	**Segment 5**	**Other**	**Reconciliation**	**Total**
2011								
Share of profit/(loss) of equity accounted investees	-	-	-	-	-	1	4	5
Segment assets	**103,849**	**11,924**	**10,104**	**7,820**	**32,601**	**3,380**	**(39,367)**	**130,311**
Investments in equity accounted investees	-	-	1	-	-	925	21	947
Capital expenditure	11,190	398	550	883	2,295	3,392	1,994	20,702
Segment liabilities	**58,589**	**6,283**	**3,207**	**4,536**	**15,812**	**1,705**	**11,012**	**101,144**

(In millions of Russian Rubles unless noted otherwise)

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Reconciliation	Total
2010								
External revenues	73,170	6,878	7,489	6,426	18,515	2,056	218	114,752
Revenues from other segments	4,380	79	423	4	973	31	(5,890)	-
Government grants	-	-	-	-	-	-	8,364	8,364
Total revenues	**77,550**	**6,957**	**7,912**	**6,430**	**19,488**	**2,087**	**2,692**	**123,116**
Other operating expenses	(72,043)	(9,414)	(9,205)	(7,026)	(19,965)	(2,164)	3,470	(116,347)
Incl. depreciation & amortization	(4,264)	(263)	(384)	(351)	(1,895)	(56)	3,264	(3,949)
Impairment losses on property, plant and equipment	-	-	-	-	-	-	(4,282)	(4,282)
Segment result	**5,507**	**(2,457)**	**(1,293)**	**(596)**	**(477)**	**(77)**	**1,880**	**2,487**

	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Other	Reconciliation	Total
2010								
Share of profit/(loss) of equity accounted investees	-	-	1	-	-	1	(2)	-
Segment assets	**91,567**	**10,760**	**9,744**	**6,908**	**30,812**	**3,058**	**(51,075)**	**101,774**
Investments in equity accounted investees	-	-	1	-	-	1	36	38
Capital expenditure	8,156	1,202	442	594	1,501	426	(695)	11,626
Segment liabilities	**45,871**	**4,429**	**2,501**	**3,659**	**13,629**	**1,382**	**4,946**	**76,417**

(In millions of Russian Rubles unless noted otherwise)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	31 December 2011	31 December 2010
Total reportable segment assets	169,678	152,849
Elimination of intersegment assets	(3,260)	(1,963)
Adjustments from RAR to IFRS:		-
Net difference in the value of fixed assets and construction in progress	(48,624)	(55,367)
Deferred tax adjustment	(1,187)	(561)
Allowance for impairment of trade and other receivables	(1,732)	(4,561)
Impairment losses on available-for-sale financial assets	-	4
Assets of the holding company (after elimination of intergroup balances)	17,384	13,721
Write-off of prepaid expenses (RAR)	(759)	(909)
Other reclassifications and adjustments	(1,189)	(1,439)
Total consolidated assets	**130,311**	**101,774**
Total reportable segment liabilities	90,132	71,471
Elimination of intersegment assets	(805)	(1,595)
Adjustments from RAR to IFRS:		
Employee benefits	10,050	9,081
Provision for results of tax inspections	135	-
Unused vacation provision	108	2,682
Liabilities of the holding company (after elimination of intergroup balances)	1,280	126
Deferred tax adjustment	3,953	(539)
Elimination of intergroup balances with the holding company	(4,655)	(5,762)
Finance leases adjustment	1,736	1,268
Other reclassifications and adjustments	(790)	(315)
Total consolidated liabilities	**101,144**	**76,417**

	2011	2010
Total reportable segment result	**(3,466)**	**607**
Adjustments from RAR to IFRS:		
Impairment losses on property, plant and equipment	(20,262)	(4,282)
Reconciliation adjustment related to Revenue (Government grants)	9,130	8,364
Reconciliation adjustment related to Revenue (other)	(277)	109
Accrual of allowance for impairment of trade and other receivables	3,282	(515)
Pension benefit obligations	(746)	(898)
Net difference in depreciation	1,343	3,265
Reconciliation adjustment related to Other income and expenses*	(3,756)	(4,715)
Finance leases expenses	822	805
Provisions for legal claims and restoration expenses	(382)	(569)
Write-off of prepaid expenses (RAR)	(186)	(191)
Reconciliation adjustments related to CoS	1,489	507
Gross Profit / (Loss)	**(13,009)**	**2,487**
Finance income	819	3,505
Finance costs	(4,231)	(6,532)
Share of result of associates	5	-
Loss before income tax	**(16,416)**	**(540)**

* In RAR accounting certain expenses reflected as other income and expenses, while in IFRS they are part of Expenses.

(In millions of Russian Rubles unless noted otherwise)

Note 6. Related party transactions

Parties are generally considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Government-related entities

In the normal course of business the Group enters into transactions with the entities controlled by the Government. The Group had transactions during the years ended 31 December 2011 and 31 December 2010 and balances outstanding as at 31 December 2011 and 31 December 2010 with the following government-related banks: OJSC Sberbank of Russia, The Central Bank of the Russian Federation, OJSC VTB, OJSC Rosselkhozbank and etc (Notes 11, 14, 18). Loans are provided at market rates.

The Group sells electricity, capacity and heat to government-related entities. Prices for such electricity and capacity sales are based on tariffs set by FST and Regional Energy Commissions. The Group's sales to government-related entities comprised approximately 26 percent of total sales for the year ended 31 December 2011 (for the year ended 31 December 2010: 36 percent, including the retail companies (Note 4)). The Group's purchases from government-related entities comprised approximately 20 percent of total expenses on purchased for the year ended 31 December 2011 (for the year ended 31 December 2010: 57 percent, including the retail companies (Note 4)).

On 27 May 2010, the Group sold its interests in OJSC Altayenergosbyt, OJSC Mosenergosbyt, OJSC Peterburgskaya sbytovaya companiya, OJSC Saratovenergo, OJSC Tambovskaya energosbytovaya companiya, and OJSC Obyedinennaya energosbytovaya companiya. The acquirer was OJSC RusHydro (Note 4).

Operating lease commitments accounted by the Group with the Government are disclosed in Note 7.

Transactions with Key management of the Group

Compensation is paid to the members of the Management Board of the Company and the subsidiaries for their services in full time management positions. The compensation is made up of a contractual salary and performance bonus depending on the results of the work for the period based on key performance indicators. The compensation and key performance indicators are approved by the Board of Directors.

Fees, compensation or allowances to the members of the Board of Directors of the Company and the major subsidiaries for their services in their capacity and for attending Board meetings are paid depending on the results for the year.

Total remuneration paid to the members of the Management Boards and Boards of Directors of the Company and the major subsidiaries for the year ended 31 December 2011 was RR 509 million (for the year ended 31 December 2010: RR 480 million).

Parent company

In the normal course of business the Group enters into transactions with the entities controlled by the OJSC RusHydro (parent company).

At 31 December 2011 and at 31 December 2010 the outstanding balances with entities controlled by OJSC RusHydro were as follows:

	31 December 2011	31 December 2010
Trade and other receivables	30	6
Trade and other payables	611	592

The income and expense items with entities controlled by OJSC RusHydro:

	Year ended 31 December 2011	Year ended 31 December 2010
Other revenue	188	127
Expenses	6,634	6,444

The Group purchased electricity from associates for RR 664 million for the year ended 31 December 2011 and RR 583 million for the year ended 31 December 2010.

(In millions of Russian Rubles unless noted otherwise)

Note 7. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Production buildings	Facilities	Machinery and equipment	Construction in progress	Other	Total
Opening balance as at 31 December 2010	**19,418**	**36,024**	**22,946**	**7,399**	**5,282**	**91,069**
Revaluation reserve (net)	6,254	9,638	9,149	-	860	25,901
Additions	338	867	865	18,010	622	20,702
Transfers	1,401	4,095	5,463	(11,120)	161	-
Elimination of accumulated depreciation	(1,548)	(5,771)	(4,340)	-	(1,208)	(12,867)
Reclassification to disposal group (Note 15)	(4,332)	(16,799)	(9,660)	(3,343)	(916)	(35,050)
Disposals	(333)	(276)	(117)	(620)	(201)	(1,547)
Closing balance as at 31 December 2011	**21,198**	**27,778**	**24,306**	**10,326**	**4,600**	**88,208**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2010	**(7,595)**	**(12,979)**	**(9,109)**	**(2,134)**	**(2,203)**	**(34,020)**
Revaluation write-down and impairment charge to profit or loss	(4,571)	(14,455)	(8,462)	(5,017)	(1,641)	(34,146)
Reversal of impairment through profit or loss	2,675	6,481	3,295	1,117	316	13,884
Depreciation charge	(1,055)	(1,807)	(3,456)	-	(563)	(6,881)
Transfers	(242)	(763)	(919)	1,936	(12)	-
Elimination of accumulated depreciation	1,548	5,771	4,340	-	1,208	12,867
Reclassification to disposal group (Note 15)	785	4,695	2,265	219	244	8,208
Disposals	273	213	342	621	102	1,551
Closing balance as at 31 December 2011	**(8,182)**	**(12,844)**	**(11,704)**	**(3,258)**	**(2,549)**	**(38,537)**
Net book value as at 31 December 2011	**13,016**	**14,934**	**12,602**	**7,068**	**2,051**	**49,671**
Net book value as at 31 December 2010	**11,823**	**23,045**	**13,837**	**5,265**	**3,079**	**57,049**

(In millions of Russian Rubles unless noted otherwise)

Cost	**Production buildings**	**Facilities**	**Machinery and equipment**	**Construction in progress**	**Other**	**Total**
Opening balance as at 31 December 2009	21,537	33,234	20,204	4,600	6,603	**86,178**
Additions	96	78	348	10,096	1,002	11,620
Acquisitions through business combinations	6	-	-	-	-	6
Transfers	886	2,802	2,435	(6,534)	411	-
Disposals of cost through disposal of subsidiaries	(3,083)	(16)	(13)	(663)	(2,416)	(6,191)
Disposals	(24)	(74)	(28)	(100)	(318)	(544)
Closing balance as at 31 December 2010	**19,418**	**36,024**	**22,946**	**7,399**	**5,282**	**91,069**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2009	(6,672)	(10,110)	(7,695)	(828)	(1,342)	**(26,647)**
Depreciation charge	(529)	(1,775)	(927)	-	(1,353)	(4,584)
Acquisitions through business combinations	(3)	-	-	-	-	(3)
Disposals of accrued depreciation	6	24	11	-	209	250
Disposals of accrued depreciation through disposal of subsidiaries	208	4	5	-	1,029	1,246
Impairment charge to profit or loss	(2,486)	(3,131)	(1,819)	(1,426)	(1,538)	(10,400)
Reversal of impairment through profit or loss	1,881	2,009	1,316	120	792	6,118
Closing balance as at 31 December 2010	**(7,595)**	**(12,979)**	**(9,109)**	**(2,134)**	**(2,203)**	**(34,020)**
Net book value as at 31 December 2010	**11,823**	**23,045**	**13,837**	**5,265**	**3,079**	**57,049**
Net book value as at 31 December 2009	**14,865**	**23,124**	**12,509**	**3,772**	**5,261**	**59,531**

(In millions of Russian Rubles unless noted otherwise)

Included in the above carrying amount of RR 2,191 million (2010: RR 1,561 million) represents cost of assets relating to office buildings of the Group which are stated at non-revalued deemed cost.

Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2011 such advances amounted to RR 1,790 million (31 December 2010: RR 520 million).

Additions to assets under construction include capitalized borrowing cost of RR 498 million including disposal group in amount of RR 89 million (capitalized borrowing cost in 2010: RR 121 million). The capitalization rate was 8.72% (2010:12.00%). Up to 31 December 2008, borrowing costs incurred to finance the construction of property, plant and equipment were expensed.

Other property, plant and equipment include motor vehicles, computer equipment, office fixtures and other equipment.

Assets held under finance lease are included in property, plant and equipment with a carrying value of RR 708 million (RR 541 million as at 31 December 2010).

Assets held under leaseback are included in property, plant and equipment with a carrying value of RR 171 million (no asset was under leaseback as at 31 December 2010), leaseback assets of disposal group amounted at RR 215 million as at 31 December 2011.

Impairment as of 31 December 2011 and 31 December 2010

Management of the Company analyzed the current economic situation and decided that indicators of impairment existed at the end of the reporting period due to the volatility of the markets, continuing increase in prices on fuel and non-flexible tariff regulation. The amount of impairment was estimated in accordance with IAS 36 “Impairment of assets”:

- all assets of subsidiaries were allocated to cash-generating units on the basis of regional tariff setting principal;
- the recoverable amount of assets was estimated as value in use calculated in accordance with discounted cash flow method.

In the impairment test of assets as of 31 December 2011 discount rates were calculated which equalled to 14% for generation companies (on 31 December 2010 – 14.45% for isolated companies and 12.32% for OJSC “DGK”) and 12.4% for grid companies (on 31 December 2010 – 11.54%).

On 31 December 2011, the Group recognised an additional impairment loss in the amount of RR 17,320 million for some cash-generating units including disposal group in amount of RR 1,743 million (on 31 December 2010 – RR 10,400 million), and the reversal of the previously recognized impairment loss in the amount of RR 9,913 million including disposal group in amount of RR 4,884 million (on 31 December 2010 RR 6,118 million). Additional impairment recognition resulted in decrease of revaluation reserve on property, plant and equipment by RR 8,529 million, including RR 153 million write-off of revaluation reserve on disposed assets. Related additional charge in amount of RR 8,944 million is recorded in income statement. For disposal group additional impairment recognition resulted in decrease of revaluation reserve on property, plant and equipment by RR 1,106 million.

The net impairment losses/reversals recognised in the consolidated statement of comprehensive income, as a separate line item within operating profit/(loss), in respect of property, plant and equipment are as follows:

Amount of net revaluation surplus and impairment charge/(reversal) occurred during the years		**2011**		**2010**
Company/Cash generating unit	**Reporting segment**	**Net revaluation surplus**	**Impairment charge/ (reversal)**	**Impairment charge/ (reversal)**
OJSC RAO UES	All other segments	-	(1,401)	-
OJSC DEK	Segment 1	1,042	(633)	-
OJSC DGK	Segment 1	7,963	(14,434)	4,383
OJSC DRSK	Segment 1	7,994	(1,555)	(3,519)
OJSC HRSK	Segment 1	-	78	(585)
OJSC HPRK	Segment 1	-	-	(238)
OJSC Dalteknenergo	Segment 1	1	(94)	-

(In millions of Russian Rubles unless noted otherwise)

Amount of net revaluation surplus and impairment charge/(reversal) occurred during the years		**2011**		**2010**
Company/Cash generating unit	**Reporting segment**	**Net revaluation surplus**	**Impairment charge/ (reversal)**	**Impairment charge/ (reversal)**
OJSC ZhKU	Segment 1	-	-	(135)
OJSC SK Agroenergo	Segment 1	-	-	(430)
OJSC Kamchatskenergo	Segment 2	54	(276)	(1,616)
OJSC UESK	Segment 2	29	(45)	(74)
OJSC Magadanenergo	Segment 3	318	(57)	(347)
OJSC Chukotenergo	Segment 3	110	(33)	(515)
OJSC Sakhalinenergo	Segment 4	501	(772)	(284)
OJSC Yakutskenergo	Segment 5	7,504	(799)	5
OJSC Sakhaenergo	Segment 5	40	(164)	(303)
OJSC Teploenergoservice	Segment 5	290	(186)	-
OJSC Peredvizhnaya energetika	All other segments	55	205	(624)
Other	All other segments	-	(96)	-
Total		**25,901**	**(20,262)**	**(4,282)**

For the purpose of cash flow discounting as at 31 December 2011 and 31 December 2010 the following key assumptions were used:

Key assumptions used in the cash flow testing	**Year ended 31 December 2011**	**Year ended 31 December 2010**
Information used		
- OJSC DGK	Actual operating results for the year and business plans for 2012-2016	Actual operating results for the year and business plans for 2011
- OJSC DRSK	Long-term “Regulatory Asset Base (RAB)” tariff models	
- Isolated companies	Actual operating results for the year and business plans for 2012	Actual operating results for the year and business plans for 2011
Forecast period		
- OJSC DGK	17 years (2012-2038)	10 years (2011-2020)
- OJSC DRSK	12 years (2012-2033)	10 years (2011-2020)
- Isolated companies	17 years (2012-2038)	10 years (2011-2020)
Forecasted growth rates	Growth rate equals to a growth rate of operating expenses is used	
Consolidated forecast of electricity consumption	Based on management forecast and the forecast prepared by reputable independent company CJSC Energy Forecasting Agency	2011-2016 data from a forecast of the Ministry of energy, forecast for 2016-2020 was prepared by management
Forecast of prices		
- OJSC DGK and isolated companies	Based on current system of tariff regulation “Cost+” limited by Ministry of Economy Development	
- OJSC DRSK	Based on current system of tariff regulation “RAB” limited by Ministry of Economy Development	
Forecast of capital expenditures	Based on the management valuation of capital expenditures on modernisation and reconstruction programme	Based on business plan data smoothed linearly to an industry average level per kWatt of installed capacity (for generation companies) and business plan data average for 2011-2013 adjusted for accumulated inflation (for grid companies)

(In millions of Russian Rubles unless noted otherwise)

The main grounds caused such a significant impairment charge and reversals of previously charged impairment are the following:

- an increase of an impairment charge for OJSC DGK (Segment 1) and Isolated companies (Segments 2-5) relates to restriction of tariffs growth by the Government set in September 2011 and to continuing trend of decreasing government grants, which actually happened in the period between 2008 and 2011. Both have a negative impact on profitability assumed by the management in latest business plans;
- significant reversal of previously charged impairment occurred for OJSC DRSK relates to considerable reduction of CAPEX program particularly due to over-fulfillment of compulsory CAPEX program in 2010 - 2011.

The following table as at 31 December 2011 presents sensitivities of profit and loss to reasonably possible changes in the post-tax discount rate, inflation rate and level of electricity and capacity tariffs applied at the date of the statement of financial position relative to the impairment assumptions made by the Group, with all other variables held constant:

	Change forecast scenario factor					
	WACC		Inflation		Electricity and capacity tariffs	
Expected impact	-0,5%	+0,5%	-0,5%	+0,5%	-0,5%	+0,5%
Impact on carrying amount	2,551	(2,395)	(3,412)	2,641	(1,816)	1,266

Revaluation as at 01 January 2011

As at 01 January 2011 the Group performed a revaluation of property, plant and equipment (31 December 2010: no revaluation was performed). The revaluation was performed by an independent appraiser.

As a result of the revaluation undertaken as at 01 January 2011, a number of the separately identified cash-generating units had revalued amounts in excess of the carrying value of the related property, plant and equipment, but below the recoverable amount when calculated using the discounted cash flows. For these assets, the revaluation surplus recognised as a result of the revaluation was restricted to that supported by the relevant discounted cash flow.

As a result of the revaluation the Group’s revaluation reserve on property plant and equipment increased by RR 27,544 million (RR 7,318 million relates to disposal group) as at 01 January 2011, comprising an increase in the carrying value of property, plant and equipment of RR 34,430 million (RR 9,148 million relates to disposal group), net of a related deferred tax liability of RR 6,886 million (RR 1,830 million relates to disposal group).

As a result of the revaluation the Group’s retained losses and other reserves decreased by RR 16,985 million (RR 4,642 million relates to disposal group) as at 01 January 2011, comprising an decrease in the carrying value of property, plant and equipment of RR 21,231 million (RR 5,802 million relates to disposal group), net of a related deferred tax asset of RR 4,246 million (RR 1,160 million relates to disposal group).

For each revalued class of property, plant and equipment stated at a revalued amount in the Consolidated Financial Statements, the carrying amount that would have been recognised had the assets been carried under the cost model is as follows (net of property, plant and equipment of assets held for sale and a disposal group):

	Production buildings	**Facilities**	**Machinery and equipment**	**Construction in progress**	**Other**	**Total**
Net book value as at 31 December 2011	7,935	8,365	8,730	7,068	789	32,887
Net book value as at 31 December 2010	11,822	23,045	13,837	5,265	3,080	57,049

(In millions of Russian Rubles unless noted otherwise)

Pledged assets

As at 31 December 2011 RR 49 million of property, plant and equipment have been pledged as collateral for borrowings. No property, plant and equipment have been pledged as collateral for borrowings as at 31 December 2010 (Note 18).

Operating lease

The Group leases a number of land areas owned by local governments and production buildings under non-cancellable operating lease agreements. Land lease payments are determined by lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 December 2011	31 December 2010
Less than one year	1,361	641
Between one year and five years	4,270	2,279
After five years	23,594	21,591
Total	**29,225**	**24,511**

The major parts are the land areas leased by the Group at the territories on which the Group's electric power stations, substations and other assets are located. According to the Land Code of the Russian Federation such land areas are limited in their alienability and cannot become private property. The Group's leases typically run for an initial period of 5 – 49 years with an option to renew the lease after that date. Lease payments are reviewed regularly to reflect market rentals.

Note 8. Investments in associates

The tables below demonstrate the movements in the carrying value of the Group's interests in associates during years ended 31 December 2011 and 31 December 2010:

Associates	Carrying value as at 31 December 2010	Share of profit/ (loss) of associates	Reclassification from available for sale financial assets	Carrying value as at 31 December 2011
OJSC Magadanelectroset	9	4	-	13
OJSC ENIN	29	1	-	30
OJSC Sakhalinskaya energy company (Note 9)	-	-	904	904
Total Associates	**38**	**5**	**904**	**947**

Associates	Carrying value as at 31 December 2009	Share of profit/ (loss) of associates	Carrying value as at 31 December 2010
OJSC Magadanelectroset	10	(1)	9
OJSC ENIN	28	1	29
Total Associates	**38**	**-**	**38**

During the years ended 31 December 2011 and 31 December 2010 the Group did not receive dividends from associates.

As at and for the year ended 31 December 2011 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Associates	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Expenses	Profit/ (Loss)
OJSC Magadanelectroset	22.50%	29.56%	299	(243)	1,033	(1,015)	18
OJSC ENIN	30.42%	30.42%	191	(92)	444	(440)	4
OJSC Sakhalinskaya energy company	17.27%	17.27%	7,459	(2,228)	-	(8)	(8)
Total Associates			**7,949**	**(2,563)**	**1,477**	**(1,463)**	**14**

As at and for the year ended 31 December 2010 the Group's interests in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

(In millions of Russian Rubles unless noted otherwise)

Associates	Ownership, %	Voting, %	Assets	Liabilities	Revenues	Expenses	Profit/ (Loss)
OJSC Magadanelectroset	22.50%	29.56%	257	(218)	890	(893)	(3)
OJSC ENIN	30.42%	30.42%	208	(115)	241	(240)	1
Total Associates			**465**	**(333)**	**1,131**	**(1,133)**	**(2)**

Available-for-sale financial assets

Available-for-sale financial assets

The Group recognised available-for-sale financial assets at fair value. The changes in fair value, mainly reflect changes in shares quotations, determined on MICEX-RTS as at 31 December 2011 and 31 December 2010.

The movements in available-for-sale financial assets for the years ended 31 December 2011 and 31 December 2010 are presented in tables below:

	1 January 2011	Additions	Reclassi-fication to associate	Income/ (loss) recognised in income statement	The fair value gain/(loss) recognised in other comprehensive income	31 December 2011
OJSC FGC UES	612	-	-	-	(146)	466
OJSC RusHydro	200	-	-	-	(83)	117
OJSC Sakhalinskaya energy company (Note 4, 8)	600	400	(904)	(96)	-	-
OJSC Eksperimentalnaya TES	68	-	-		-	68
LLC IT Energy Service	41	-	-	8	-	49
Other available-for-sale investments	84	-	-	1	-	85
Total	**1,605**	**400**	**(904)**	**(87)**	**(229)**	**785**

	1 January 2010	Additions	Disposal	Income/ (loss) recognised in income statement	The fair value gain/(loss) recognised in other comprehensive income	31 December 2010
OJSC FGC UES	4,075	-	(1,386)	(30)	(2,047)	612
OJSC RusHydro	138	-	-	(6)	68	200
OJSC Sakhalinskaya energy company	300	300	-	-	-	600
OJSC Eksperimentalnaya TES	68	-	-	-	-	68
LLC IT Energy Service	99	-	-	(58)	-	41
Other available-for-sale investments	153	-	(68)	(1)	-	84
Total	**4,833**	**300**	**(1,454)**	**(95)**	**(1,979)**	**1,605**

Note 10. Other non-current assets

	31 December 2011	31 December 2010
Non-current accounts receivable (Net of provision for impairment of accounts receivable of RR 120 million as at 31 December 2011 and RR 323 million as at 31 December 2010)	363	505
Other non-current assets	476	384
Total other non-current assets	**839**	**889**

(In millions of Russian Rubles unless noted otherwise)

Note 11. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash at bank	2,408	2,255
Term deposits with original maturity of less than three months	1,907	1,582
Cash on hand	15	16
Total cash and cash equivalents	**4,330**	**3,853**

Cash and cash equivalents held as at 31 December 2011 and 31 December 2010 comprised short-term bank deposits with original maturities of three months or less. The credit quality of cash and cash equivalents balances summarised below. Ratings are actual as at 31 December 2011.

	Rating	Rating agency	31 December 2011	31 December 2010
Cash at banks				
OJSC Gazprombank	BB+	Standard & Poor’s	990	429
OJSC Sberbank of Russia	Baa1	Moody's	474	365
OJSC AKB Rosbank	BBB +	Fitch Ratings	142	243
OSJC Kamchatsk Agroprombank	B++	Expert RA	82	40
OJSC Sobinbank	Baa3	Moody’s	75	22
OSJC Transkreditbank	Ba1	Moody’s	64	32
OJSC Alfa-bank	BB-	Standard & Poor’s	-	207
OJSC Promsvyazbank	BB-	Fitch Ratings	58	92
OJSC Bank VTB	Baa 1	Moody’s	44	49
OSJC Rosselkhozbank	Baa1	Moody's	37	64
The Central Bank of the Russian Federation	unrated		31	352
Other			411	360
Total cash at banks			**2,408**	**2,255**
Bank deposits				
OJSC Uralsib	BB-	Fitch Ratings	1,398	-
OJSC Promsvyazbank	BB-	Fitch Ratings	200	-
OJSC Alfa-bank	BB-	Standard & Poor’s	-	209
OJSC NOMOS-BANK	BB	Fitch Ratings	-	1,210
The Central Bank of the Russian Federation	unrated		187	130
Other			122	33
Total cash equivalents			**1,907**	**1,582**

The line Cash and cash equivalents as at 31 December 2011 in the Consolidated Statement of Cash Flows included RR 77 million of cash and cash equivalents held by the disposal group classified as held for sale (Note 15).

(In millions of Russian Rubles unless noted otherwise)

Note 12. Accounts receivable and prepayments

	31 December 2011	31 December 2010
Trade receivables (Net of provision for impairment of accounts receivable of RR 4,442 million as at 31 December 2011 and RR 6,064 million as at 31 December 2010)	14,964	9,287
Advances to suppliers and prepayments (Net of provision for impairment of accounts receivable of RR 122 million as at 31 December 2011 and RR 265 million as at 31 December 2010)	3,258	2,117
Value added tax recoverable	1,866	1,272
Income tax receivables	173	607
Other receivables (Net of provision for impairment of accounts receivable of RR 584 million as at 31 December 2011 and RR 555 million as at 31 December 2010)	2,362	3,033
Total accounts receivable and prepayments	**22,623**	**16,316**

As at 31 December 2011 RR 578 million of accounts receivable and prepayments are presented within assets of disposal group (Note 15).

The majority of customers, balances of which are included in trade receivables, comprise a single class, as they bear the same characteristics.

The provision for impairment of accounts receivable has been determined based on specific customer identification, customer payment trends, subsequent receipts and settlements and the analysis of expected future cash flows (Note 3). The Group believes that the Group's subsidiaries will be able to realise the net receivable amount through direct collections and other non-cash settlements, and the recorded value approximates their fair value.

Movements in the impairment provision for trade and other receivables are as follows:

	2011	2010
As at 1 January	6,884	6,661
Charge for the year	1,545	4,467
Reversal of impairment	(2,255)	(2,866)
Trade receivables written-off as uncollectible	(1,026)	(1,378)
As at 31 December	**5,148**	**6,884**

As at 31 December 2011 the accounts receivable of RR 6,428 million (31 December 2010: RR 4,135 million) were past due but not impaired. These receivables relate to a number of independent customers without recent history of default. The ageing analysis of these trade receivables is as follows:

31 December 2011	Less than 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	2,531	2,747	1,150	6,428
% to total	39%	43%	18%	

31 December 2010	Less than 3 months	Between 3 and 12 months	Beyond 12 months	Total
Accounts receivable past due, not impaired	1,484	2,147	504	4,135
% to total	36%	52%	12%	

The counterparties, balances of which fall into trade receivables and other receivables categories, and which are neither past due nor impaired, have approximately the same credit quality.

The Group does not hold any accounts receivable pledged as collateral.

(In millions of Russian Rubles unless noted otherwise)

Note 13. Inventories

	31 December 2011	31 December 2010
Fuel	11,216	9,060
Materials and supplies	3,181	3,227
Spare parts	929	959
Other materials	924	618
Total inventories, gross	**16,250**	**13,864**
Provision for inventory obsolescence	(62)	(64)
Total inventories	**16,188**	**13,800**

As at 31 December 2011 RR 264 million of inventories are presented within assets of disposal group (Note 15).

There are RR 259 million of inventories have been pledged as collateral for borrowings as at 31 December 2011. No inventories have been pledged as collateral for borrowings as at 31 December 2010 (Note 18).

Note 14. Other current assets

	31 December 2011	31 December 2010
Current deposits	6,844	8,069
Other short-term investments	31	117
Total other current assets	**6,875**	**8,186**

Disclosure of current deposits per bank rating is as follows:

Current deposits	Rating	Rating agency	Effective interest rate, %	31 December 2011	31 December 2010
OJSK Bank Saint Petersburg	Ba3	Moody's	6.0-7.75	2,885	1,270
OJSK MDM Bank	B	Standard & Poor’s	7.8-10.0	1,313	730
OJSK Promsvyazbank	Ba2	Moody's	2.85-9.75	1,037	1,980
OJSK NOTA-bank	A+	Expert RA	7.5-13.0	800	400
CJSC Transcapital Bank	B1	Moody's	9.6	440	-
OJSK Alfa-bank	BB-	Standard & Poor’s	2.5	267	-
OJSC Nomos Bank	Ba3	Moody's	6.7-10.9	-	3,165
OJSK Transcreditbank	Ba1	Moody's	7.07	-	260
OJSC First Republic Bank	A3	Moody's	11.5	-	200
Others	unrated		5.0-5.5	102	64
Total deposits				**6,844**	**8,069**

Note 15. Assets and liabilities of a disposal group classified as held for sale

The decision of the Russian Government No. 1174-p dated 07 July 2011 defined the transfer of OJSC DRSK shares to OJSC Federal Grid Company. 19 December 2011 Management Board of the Company, (minutes No. 3 dated 19 December 2011) suggested to approve concluding of agreement between OJSC DEK and OJSC FGC on sale of 100% of ordinary shares of OJSC DRSK. As completion of the transaction became highly probable as at 31 December 2011, the Group has classified the equity investments in OJSC DRSK as assets held for sale and a disposal group.

(In millions of Russian Rubles unless noted otherwise)

	Note	31 December 2011
Non-current assets		
Property, plant and equipment		26,842
Other non-current assets		112
Total non-current assets		**26,954**
Current assets		
Cash and cash equivalents	11	77
Trade receivables	12	162
Advances to suppliers and prepayments	12	29
Other receivables	12	387
Inventories	13	264
Total current assets		**919**
Assets of a disposal group classified as held for sale		**27,873**

	Note	31 December 2011
Non-current liabilities		
Deferred income tax liabilities	17	2,658
Non-current debt		3,596
Other non-current liabilities		1,888
Total non-current liabilities		**8,142**
Current liabilities		
Current debt and current portion of non-current debt		2,022
Trade accounts payable		2,068
Advances received		263
Other payables		388
Current income tax payable		5
Other taxes payable		205
Total current liabilities		**4,951**
Liabilities of a disposal group classified as held for sale		**13,093**

Non-current debt includes long-term loans received from OJSC Sberbank, OJSC Gazprombank, OJSC Rosbank and OJSC Sviaz-Bank in RR currency with effective interest rate from 6.73 to 9.6 percent.

Current debt includes short-term loans received from OJSC Sberbank, OJSC Sviaz-Bank, OJSC Rosbank in RR currency with effective interest rate from 5.9 to 7.7 percent.

Other non-current liabilities include pension benefit obligations in amount of RR 1,635 million (Note 19).

Revenue and expenses, excluding intragroup other revenue RR 15,562 million for the year ended 31 December 2011 (RR 14,042 million for the year ended 31 December 2010) and intragroup expenses RR 3,882 million (RR 3,215 million for the year ended 31 December 2010) of a subsidiary classified as a disposal group as at 31 December 2011 are as follows:

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Other revenue		3,565	4,290
Expenses, including:		(18,289)	(18,443)
Electricity distribution expenses		(8,044)	(7,522)
Impairment of property, plant and equipment		(1,555)	(3,519)
Employee benefit expenses		(4,609)	(3,811)
Depreciation of property, plant and equipment		(2,309)	(1,745)
Operating loss		**(14,724)**	**(14,153)**

Note 16. Equity

	Number of outstanding shares and fully paid (in thousands)	Ordinary shares	Preference shares	Total share capital
As at 31 December 2010	43,116,903	20,520,877	1,037,575	21,558,452
As at 31 December 2011	43,116,903	20,520,877	1,037,575	21,558,452

Company was established on 1 July 2008 and as at 31 December 2011 all Company's shares were fully paid (Note 1).

Nominal value per each share equal 0.5 RR for ordinary share and 0.5 RR for preference share.

Ordinary shares and preference shares

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

Preference shares have no right of conversion or redemption, but are entitled to a minimum annual dividend of 10 percent of net statutory profit of the Company.

In total the preference dividend may not be less than the ordinary dividend and is not cumulative. Preference shares carry no voting rights except when dividends on preference shares have not been declared fully at the Annual Shareholders' meeting, in which case the preference shares acquire voting rights.

Dividends

In accordance with Russian legislation the Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Company's statutory financial statements prepared in accordance with RAR. For the year ended 31 December 2011 the Company had retained loss of RR 13,918 million under RAR.

Dividends in the amount of RR 29 million relating to the year ended 31 December 2011 (for the year ended 31 December 2010: RR 6 million) were declared by the subsidiaries in favour of minority holders.

Note 17. Income Taxes

Income tax expense recorded in profit or loss comprises the following:

	Year ended 31 December 2011	Year ended 31 December 2010
Current income tax expense	600	909
Deferred income tax (benefit)/ expense	(318)	(574)
Total income tax (benefit)/charge	**282**	**335**
Current income tax charge from discontinued operations	-	2,498
Deferred income tax charge from discontinued operations	-	34
Total income tax charge from discontinued operations	**-**	**2,532**

During years ended 31 December 2011 and 2010 most entities of the Group were subject to tax rates of 20 percent on taxable profit.

(In millions of Russian Rubles unless noted otherwise)

Reconciliation of effective tax rate:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit / (loss) before tax from continuing operations	**(16,416)**	**(540)**
Profit / (loss) before tax from discontinued operations	**-**	**8,943**
Theoretical income tax charge at an average statutory tax rate of 20 percent	3,288	(1,681)
Tax effect of items which are not deductible or assessable for taxation purposes	(946)	(1,400)
Deferred tax recognised in respect of disposal group	(2,254)	-
Unrecognised deferred tax assets	(27)	(125)
Other income tax effect	(343)	339
Total income tax charge	**(282)**	**(2,867)**
Less tax charge from discontinued operations	-	(2,532)
Total income tax charge from continuing operations	**(282)**	**(335)**

Tax effect of items which are not deductible or assessable for taxation purposes for the year ended 31 December 2011 relates to the following items: effect on social and charity costs amounted to RR 264 million, effect on uncertain tax position amounted to RR 135 million. Remaining amounts consist of other individually insignificant items which are not deductible for taxation purpose and relate to consulting services, disposal of investments and others.

Deferred tax assets not recognised in the year ended 31 December 2011 relate mainly to accumulated impairment loss accrued on property, plant and equipment. The deferred tax assets are not recognised if recoverability of deferred tax assets is uncertain.

Deferred taxes analysis by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

(In millions of Russian Rubles unless noted otherwise)

The tax effect of the movements in the temporary differences for the years ended 31 December 2011 and 31 December 2010 are:

	31 December 2010	(Charged)/ Credited to the income statement	(Charged)/ Credited to other comprehensive income	Reclassification (disposal group)	31 December 2011
Deferred income tax liabilities	**(1,786)**	**(802)**	**(5,135)**	**3,636**	**(4,087)**
Property, plant and equipment	(1,978)	2,081	(5,181)	3,147	(1,931)
Receivables	(49)	(67)	-	-	(116)
Other	(483)	(1,892)	46	-	(2,329)
Deferred tax offset	724	(924)	-	489	289
Deferred income tax assets	**38**	**1,120**	**-**	**(978)**	**180**
Property, plant and equipment	85	(54)	-	-	31
Receivables	86	93	-	(46)	132
Inventory	64	(61)	-	-	3
Other	528	218	-	(443)	303
Deferred tax offset	(724)	924	-	(489)	(289)
Deferred income tax liabilities, net	**(1,748)**	**318**	**(5,135)**	**2,658**	**(3,907)**

	31 December 2009	(Charged)/ Credited to the income statement	(Charged)/ Credited to other comprehensive income	Disposal of subsidiaries	31 December 2010
Deferred income tax liabilities	**(4,004)**	**987**	**396**	**835**	**(1,786)**
Property, plant and equipment	(3,836)	1,297	-	561	(1,978)
Receivables	(194)	45	-	100	(49)
Other	(702)	(196)	396	19	(483)
Deferred tax offset	728	(159)	-	155	724
Deferred income tax assets	**740**	**(447)**	**-**	**(255)**	**38**
Property, plant and equipment	679	(603)	-	9	85
Receivables	139	3	-	(56)	86
Inventory	81	53	-	(71)	63
Other	569	(59)	-	18	528
Deferred tax offset	(728)	159	-	(155)	(724)
Deferred income tax liabilities, net	**(3,264)**	**540**	**396**	**580**	**(1,748)**

Total amount of deductible temporary differences for which deferred income tax assets have not been recognized by the Group comprises RR 27,460 million and RR 31,710 million (RR 28,910 million continuing operations and RR 2,800 million discontinued operations) as at 31 December 2011 and 31 December 2010 respectively.

Corresponding deferred tax assets which have not been recognized by the Group amount to RR 5,492 million and RR 6,342 million (RR 5,782 million continuing operations and RR 560 million discontinued operations) as at 31 December 2011 and 31 December 2010 respectively.

Current portion of net deferred tax liabilities in the amount of RR 143 million as at 31 December 2011 (31 December 2010: RR 388 million) represents the amount of deferred tax liabilities to be recovered during the next year.

(In millions of Russian Rubles unless noted otherwise)

Note 18. Current and non-current debt

Current borrowings

	Currency	Effective interest rate, %	31 December 2011	31 December 2010
OJSC Sberbank	RR	5.25-14	5,323	2,273
AB Bank Rossiya	RR	7.5	2,300	1,334
OJSC Rosbank	RR	5.9-13	1,278	6,733
OJSC Nomos-Regiobank	RR	8.5-12	221	232
OJSC Transcreditbank	RR	6.5-14	212	4,039
OJSC AKB Bank of Moscow	RR	5-11.25	109	1,567
OJSC Vozrozhdenie Bank	RR	10-11	13	7
CJSC Raiffeisenbank	RR	6.94-7.28	-	1,300
OJSC Gasprombank	RR	6.5-10.5	-	1,218
OJSC Dalnevostochniy bank	RR	7.45	-	175
Other	RR	7.7-16	288	100
Current portion of loans and borrowings	RR		7,594	3,924
Bonds	RR	10.3	-	120
Promissory notes issued	RR		-	10
Current finance lease liabilities	RR		576	508
Interest payable	RR		147	173
Total			**18,061**	**23,713**

Non-current borrowings

	Currency	Effective interest rate , %	Year of maturity	31 December 2011	31 December 2010
OJSC Sberbank	RR	6.4-11	2012-2017	20,652	8,860
OJSC Gasprombank	RR	7.3-10.5	2012-2017	7,149	4,640
OJSC Rosbank	RR	6.46-9	2012-2014	7,458	1,724
OJSC AKB Bank of Moscow	RR	7.44-10.27	2012	-	942
OJSC Sobinbank	RR	10.5-11.5	2012-2013	323	930
Ministry of Finance of the Russian Federation	RR	2.63	2012-2013	409	689
OJSC Sviaz-Bank	RR	7.85-16	2012	-	490
OJSC Transcreditbank	RR	10.8-13.45	2012	300	475
CJSC Globeksbank	RR	12-19.5	2011	-	335
OSJC Rosselkhozbank	RR	15-16	2013-2018	127	136
OJSC Dalnevostochnuy bank	RR	7.80	2014	100	100
Other	RR	7-8	2013	313	50
Current portion of loans and borrowings	RR			(7,594)	(3,924)
Bonds	RR	8.25	2013	3,960	3,960
Non-current finance lease liabilities	RR			905	880
Total				**34,102**	**20,287**

As at 31 December 2011 RR 49 million of property, plant and equipment and RR 259 million of inventories have been pledged as collateral for borrowings (Note 7,13). No property, plant and equipment and inventories have been pledged as collateral for borrowings as at 31 December 2010.

As at 31 December 2011 some of the Group's credit contracts are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators. The Group did not fulfill the requirements regarding to gearing and other ratios with OJSC Rosbank. Before the year end management received a covenant waiver from the bank confirming absence of intention to request early repayment of loans.

As at 31 December 2010 the Group did not fulfill the requirements regarding to gearing and other ratios with OJSC Rosbank, due to breach of the covenant clauses, the bank was contractually entitled to request early repayment of the outstanding amount of RR 1,318 million. The outstanding balance as at 31 December 2010 was reclassified as a current liability. After the year end management received a covenant waiver from the bank confirming absence of intention to request early repayment of loans. No earlier redemptions were requested by OJSC Rosbank during the year ended

(In millions of Russian Rubles unless noted otherwise)

31 December 2011.

The Group did not apply hedge accounting and had not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

Minimum lease payments under finance leases and their present values are as follows:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2011	**747**	**1,029**	**-**	**1,776**
Less future finance charges	(171)	(124)	-	(295)
Present value of minimum lease payments at 31 December 2011	**576**	**905**	**-**	**1,481**
Minimum lease payments at 31 December 2010	**697**	**1,047**	**-**	**1,744**
Less future finance charges	(189)	(167)	-	(356)
Present value of minimum lease payments at 31 December 2010	**508**	**880**	**-**	**1,388**

Note 19. Pension benefit obligations

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2011 and 31 December 2010.

Amounts recognised in the Group's Consolidated Statement of Financial Position:

	31 December 2011	31 December 2010
Present value of defined benefit obligations	8,964	9,033
Fair value of plan assets	(294)	(246)
Unrecognised actuarial gains/(losses)	802	69
Unrecognised past service (cost)/asset	134	(21)
Net liability	**9,606**	**8,835**

Amounts disclosed as of 31 December 2011 include RR 1,635 million of pension benefit obligations presented within Liabilities of disposal group (Note 15).

Amounts recognised within operating expenses in the consolidated income statement:

	Year ended 31 December 2011	Year ended 31 December 2010
Current service cost	522	401
Interest cost	746	695
Expected return on plan assets	(22)	(24)
Net actuarial gains (loss) recognised in year	6	(8)
Amortisation of past service cost	3	3
Settlement and curtailment (gain)/loss	(128)	(169)
Net expense recognised in profit or loss for the year (DB-only)	**1,127**	**898**

Movements in the net liability recognised in the consolidated statement of financial position are as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Net liability at start of year	8,835	8,333
Net expense recognised in profit or loss for the year	1,127	898
Contributions	(356)	(396)
Net liability at end of year	**9,606**	**8,835**

The Group expects to contribute RR 350 million to the defined benefit plans during the year beginning 01 January 2012.

(In millions of Russian Rubles unless noted otherwise)

Movements in fair value of plan assets:

	Year ended 31 December 2011	Year ended 31 December 2010
Account value at year start	246	219
Expected return on plan assets	22	24
Gain/(loss) on plan assets	5	(24)
Contributions by employer	355	396
Payments	(334)	(364)
Curtailment/settlement	-	(5)
Account value at year end	**294**	**246**

Historical data for present value of the defined benefit obligation, plan assets and experience adjustments:

	2011	2010	2009	2008
Present value of defined benefit obligations (DBO)	8,964	9,033	7,591	6,970
Fair value of plan assets	(294)	(246)	(219)	(254)
(Surplus)/ deficit in plan	8,670	8,787	7,372	6,716
Gains/(losses) arising of experience adjustments on plan liabilities	333	193	(243)	117
Gains/(losses) arising of experience adjustments on plan assets	5	(24)	(23)	(17)

Principal actuarial assumptions at 31 December (expressed as weighted averages):

	Year ended 31 December 2011	Year ended 31 December 2010
Discount rate at 31 December	8.50%	8.00%
Expected return on plan assets at 31 December	9.13%	8.62%
Future salary increases	9.72%	9.72%
Future pension increases	5.50%	5.50%
Staff turnover	5.00%	5.00%
Employees' average remaining working life (years)	10	10
Mortality	Rosstat's Russian population table for 1998	Rosstat's Russian population table for 1998

Note 20. Other non-current liabilities

Other non-current liabilities	31 December 2011	31 December 2010
Pension benefit obligations (Note 19)*	7,971	8,835
Assets retirement obligation (Reserve for ash dump)	527	168
Other non-current liabilities	748	26
Total other non-current liabilities	**9,246**	**9,029**

*As at 31 December 2011 the amount of pension benefit obligations does not include liabilities of a disposal group in the amount of RR 1,635 million (Note 15).

(In millions of Russian Rubles unless noted otherwise)

Note 21. Accounts payable and accruals

	31 December 2011	31 December 2010
Trade payables	8,873	8,037
Settlements with personnel	3,703	3,530
Accounts payable in respect of share issue (Note 33)	748	-
Advances received	3,504	3,709
Dividends payable	21	18
Other accounts payable	1,210	1,317
Total accounts payable and accruals	**18,059**	**16,611**

Payables to suppliers of property, plant and equipment of RR 2,757 million (31 December 2010: RR 1,179 million) included in current accounts payable.

Note 22. Other taxes payable

	31 December 2011	31 December 2010
Value added tax	2,570	2,380
Insurance contribution	995	1,043
Property tax	322	317
Other taxes	364	530
Total other taxes payable	**4,251**	**4,270**

Note 23. Revenue

	Year ended 31 December 2011	Year ended 31 December 2010
Sales of electricity and capacity	81,698	76,283
Heat and hot water sales	30,672	25,340
Other revenue	12,322	13,129
Total revenue	**124,692**	**114,752**

Other revenue for the years ended 31 December 2011 and 31 December 2010 mainly includes revenue from rentals, transportation of electricity and heat, repair and construction services, technological connection, resale of goods and communication services.

Note 24. Government grants

In accordance with government decrees some regions of the Russian Federation are entitled government subsidies. These government subsidies represent compensation for the low electricity tariffs at which electricity is sold in these regions. During the period the Group received government subsidies in amount of RR 9,130 million (in 2010 in the amount of RR 8,364 million) in the following subsidised territories: Khabarovskiy territory, Primorskiy territory and other Far East regions.

(In millions of Russian Rubles unless noted otherwise)

Note 25. Expenses

	Year ended 31 December 2011	Year ended 31 December 2010
Purchased electricity and capacity	8,646	8,954
Electricity distribution expenses	11,501	11,960
Employee benefit expenses (including payroll taxes, and pension benefit expenses)	33,774	28,425
Depreciation of property, plant and equipment	6,726	3,949
Fuel expenses	45,145	37,601
Taxes other than on income	1,295	1,576
(Income)/loss on disposal of property, plant and equipment, net	(175)	60
Third parties services, including:		
Services of SO-CDU, NP Council Market, CFS	633	518
Repairs and maintenance	2,523	1,823
Rent	1,258	1,039
Agency expenses	190	271
Consulting, legal and information expenses	693	735
Security expenses	975	700
Services of subcontracting companies	1,254	3,890
Insurance cost	132	100
Transportation expenses	166	517
Other third parties services	1,982	1,107
Social charges	842	956
Water usage expenses	1,853	1,468
Other materials	6,246	4,903
(Reversal)/Accrual of impairment for accounts receivable, net	(1,297)	2,292
Insurance indemnity	(336)	(12)
Other expenses	2,543	3,515
Total expenses	**126,569**	**116,347**

Note 26. Finance income/(expenses), net

	Year ended 31 December 2011	Year ended 31 December 2010
Income from sales of available for sale financial assets	-	2,717
Interest income	671	758
Foreign exchange gain	87	17
Other finance income	61	13
Finance income	**819**	**3,505**
Interest expense	(3,125)	(4,835)
Finance lease expense	(261)	(1,002)
Other finance expenses	(845)	(695)
Finance expenses	**(4,231)**	**(6,532)**
Finance expenses, net	**(3,412)**	**(3,027)**

Finance income from disposal of available-for-sale financial assets in amount RR 2,717 million for the year ended 31 December 2010 related to income from sales of OJSC FGC UES shares held by the Group. Fair value gains/losses include reclassification of fair value gain related to OJSC FGC UES shares previously reflected in other comprehensive income to profit and loss in amount of RR 2,047 million for the year ended 31 December 2010.

Note 27. Earnings per share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to shareholders by the weighted average number of ordinary and preference shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Profit or losses per share from continuing operations and from discontinued operations are calculated as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Weighted average number of ordinary shares, in thousands	41,041,754	41,041,754
Weighted average number of preference shares, in thousands	2,075,149	2,075,149
Profit/(loss) attributable to ordinary and preference shareholders, thousand rubles	(9,914,253)	4,023,000
Profit for the year from discontinued operations, attributable to shareholders, thousand rubles (Excluding RR 1,295,861 thousand attributable to non-controlling interest for the year ended 31 December 2010)	-	4,771,139
Profit/(loss) from continuing operations attributable to ordinary and preference shareholders, thousand rubles (Excluding RR 126,861 thousand attributable to non-controlling interest for the year ended 31 December 2010)	(9,914,253)	(748,139)
Basic and diluted loss per ordinary and preference share from loss from continuing operations attributable to the owners of the Company (in RR per share)	**(0.2299)**	**(0.0174)**
Basic and diluted earnings per ordinary and preference share from discontinued operations (in RR per share)	**-**	**0.1107**

Note 28. Contingencies and Commitments

Political environment. The operations and earnings of the Group's subsidiaries continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to the environmental protection, in the Russian Federation.

Insurance. The Group holds limited insurance policies in relation to its assets, operations, public liability or other insurable risks. Accordingly, the Group is exposed for those risks for which it does not have insurance.

Legal proceedings. The Group's subsidiaries are parties to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, upon final disposition, will have a material adverse effect on the position of the Group.

Tax contingencies. Russian tax, currency and customs legislation are subject to varying interpretation and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant regional and federal authorities, in particular, the way of accounting for tax purposes of some income and expenses of the Group as well as deductibility of input VAT from suppliers and contractors. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may arise. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances review may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011 also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Management believes that as at 31 December 2011 its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in the Consolidated Financial Statements.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Environmental matters. The Group's subsidiaries and their predecessor entities have operated in the utilities industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group's subsidiaries periodically evaluate their obligations under environmental regulations. Group accrued assets retirement obligation for ash damps used by the Group as at 31 December 2011 and 31 December 2010 (Note 20).

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

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default.

The Group was in partial compliance with covenants during years 2010 and 2011 and as at 31 December 2011 and 31 December 2010 (Note 18).

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

Capital expenditure commitments. At 31 December 2011 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 6,746 million (31 December 2010: RR 1,786 million).

Note 29. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, which include market risks, credit risks and operational risks. Market risks comprise currency risk, interest rate risk, price risk and liquidity risk. The primary objectives of the financial risk management function are to provide reasonable assurance for achievement of the Group's objectives by establishing Group's overall framework, identifying, analyzing and evaluating risks, establishing risk limits, and then ensuring that exposure to risks stays within these limits and in case of exceeding these limits to impact on the risks. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

The Group is exposed to industry risks in particular due to ongoing changes in the utilities industry due to the liberalisation of the electricity and capacity markets. To manage the risk the Group seeks to establish favorable legal and regulatory framework for electricity and capacity markets. The Group has been actively involved in the preparation of regulations in the utilities industry, implemented by the Ministry of Energy of the Russian Federation, NP Council Market, FST.

Credit risk. Credit risk is the risk of financial loss for the Group in the case of non-fulfillment by the contractor of the obligations on the financial instrument under the proper contract. Exposure to credit risk arises as a result of the Group's sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

(In millions of Russian Rubles unless noted otherwise)

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of receivables already recorded.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection or to minimise losses.

To reduce the credit risk in the electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the regulated market, based on the frequency of default, and to establish limits based on the rating of the customer's portfolio.

The Group's management reviews ageing analysis of outstanding trade and other receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 12 and in table below:

	31 December 2011	Allowance as at 31 December 2011	31 December 2010	Allowance as at 31 December 2010
Not past due	12,415	293	9,174	578
Past due less than 3 months	2,459	153	1,653	169
Past due for more than 3 and less than 12 months	3,054	652	3,628	1,481
Past due for more than one year	4,861	4,049	5,219	4,715
Total	**22,789**	**5,147**	**19,674**	**6,943**

Financial assets neither not past due, nor impaired represented by a pool of different customers, mainly consumers of electricity and heat energy with no history of default and high probability of payments, which credit quality is assessed as high.

Significant part of allowance was created for individual not homogeneous customers based on history of past payments and management's assessment of its recoverability.

Cash has been deposited in the financial institutions with no more than minimal exposure to the default risk at the time of account opening. The Group approved the list of banks for deposits, as well as rules for their placement. Moreover, the Group constantly evaluates the financial condition, ratings assigned by independent agencies, background and other factors of such banks.

The tables in Notes 11 and 14 show deposits with banks and other financial institutions and their ratings at the end of the reporting period.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the Consolidated Statement of Financial Position (Note 31).

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, and (iii) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. Electricity produced by the Group is sold on the domestic market of the Russian Federation at the prices fixed in Russian Rubles. Hence, the Group does not have significant foreign currency exchange risk. The financial condition of the Group, its liquidity, financing sources and the results of operations do not considerably depend on currency rates as the Group operations are planned to be performed in such a way that its assets and liabilities are to be denominated in the national currency.

There is no significant effect of the changes of foreign currency rates on the Group's financial position.

Interest rate risk. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The interest rates on all significant loans and borrowings are fixed. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

(In millions of Russian Rubles unless noted otherwise)

The Group manages liquidity risk operating the following factors:

- tariffs for electricity and heat are set on cost plus basis, which covered the majors of Group's entities expenses;
- the Group received continuing strong support from Government in the form of grants received for compensation of low electricity tariff (Note 18);
- the Group consider the possibility of restructuring of current borrowings and loans to postpone the payments and increase liquidity;
- significant part of current liabilities represented by advances received for future services and electricity supply, which also guarantee the demand on Group's entities products.

The table below shows liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the statement of financial position amount is based on discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2011 is as follows:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Liabilities				
Current and non-current debt (Note 18)	20,042	30,141	5,807	556
Trade payables (Note 21)	8,873	-	-	-
Finance lease liabilities (Note 18)	747	689	340	-
Total future net payments, including future principal and interest payments	**29,662**	**30,830**	**6,147**	**556**
Liabilities of disposal group classified as held for sale	**13,093**	**-**	**-**	**-**

The maturity analysis of financial liabilities as at 31 December 2010 is as follows:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
Liabilities				
Current and non-current debt (Note 18)	27,609	13,869	5,281	-
Trade payables (Note 21)	8,037	-	-	-
Finance lease liabilities (Note 18)	697	534	513	-
Total future net payments, including future principal and interest payments	**36,343**	**14,403**	**5,794**	**-**

Note 30. Management of capital

The Group's capital risk management has as key objectives compliance with the Russian legislation requirements and policy of capital cost reduction.

The following capital requirements have been established for joint stock companies by the legislation of the Russian Federation:

- share capital cannot be lower than 1,000 minimum shares on the date of the company's registration;
- if the share capital of the entity is more than statutory net assets of the entity, such entity must decrease its share capital to the value not exceeding its net assets;
- if the minimum allowed share capital is more than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2011 the Company was in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The amount of capital that the Group managed as at 31 December 2011 was RR 29,167 million, 31 December 2010: RR 25,357 million.

(In millions of Russian Rubles unless noted otherwise)

Note 31. Fair value of financial instruments

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

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

Financial instruments carried at fair value. Available-for-sale financial assets are carried in the Consolidated Statement of Financial Position at their fair value that is measured on the basis of the quoted prices in an active market (Level 1 in the fair value hierarchy).

Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Carrying amounts of trade and other financial receivables approximate fair values (Note 12).

Liabilities carried at amortised cost. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Carrying amounts of liabilities at amortised cost approximate fair values.

Note 32. Presentation of financial instruments by measurement category

The following table provides a reconciliation of classes of financial assets with the measurement categories of IAS 39, *Financial Instruments: Recognition and Measurement* and the Group's maximum exposure to credit risk by class of assets as at 31 December 2011:

	Loans and receivables	**Available-for-sale financial assets**	**Total**
Assets			
Other non-current assets (Note 10)	**363**	**-**	**363**
Long-term accounts receivable	363	-	363
Available-for-sale financial assets (Note 9)		**785**	**785**
Trade and other receivables (Note 12)	**17,280**	**-**	**17,280**
Trade receivables	14,964	-	14,964
Promissory notes receivable	10	-	10
Other receivables	2,306	-	2,306
Other current assets (Note 14)	**6,844**	**-**	**6,844**
Promissory notes and deposits	6,844	**-**	6,844
Cash and cash equivalents (Note 11)	**1,907**	**-**	**1,907**
Total financial assets	**26,394**	**785**	**27,179**
Available-for-sale assets and financial assets of disposal group classified as held for sale	**625**	**-**	**625**
Non-financial assets	**75,260**	**-**	**75,260**
Non-financial assets of disposal group classified as held for sale	**27,247**	**-**	**27,247**
Total assets	**129,526**	**785**	**130,311**

All of the Group's financial liabilities are carried at amortised cost.

(In millions of Russian Rubles unless noted otherwise)

The following table provides a reconciliation of financial assets with the measurement categories and the Group's maximum exposure to credit risk by class of assets as at 31 December 2010:

	Loans and receivables	Available-for-sale financial assets	Total
Assets			
Other non-current assets (Note 10)	**505**	**-**	**505**
Long-term accounts receivable	505	-	505
Available-for-sale financial assets (Note 9)	**-**	**1,605**	**1,605**
Trade and other receivables (Note 12)	**12,226**	**-**	**12,226**
Trade receivables	9,287	-	9,287
Promissory notes receivable	283	-	283
Other receivables	2,656	-	2,656
Other current assets (Note 14)	**8,069**	**-**	**8,069**
Promissory notes and deposits	8,069	-	8,069
Cash and cash equivalents (Note 11)	**1,582**	**-**	**1,582**
Total financial assets	**22,382**	**1,605**	**23,987**
Non-financial assets	**77,787**	**-**	**77,787**
Total assets	**100,169**	**1,605**	**101,774**

Note 33. Subsequent events

Additional share issue

In March 2011 the Board of Directors of OJSC RAO Energy System of East made a decision (minutes No. 55 dated 23 March 2011) to increase share capital by issuing additional ordinary shares of the Company. In accordance with the decision 3,636,867,919 ordinary shares of par value RR 0.5 per share will be placed through public subscription. Funds received as a result of the placement of shares will be channeled to finance the project of construction of thermal power plant in Sovetskaya Gavan and other key investment projects of the Company.

On 07 February 2012 2,317,068,930 ordinary shares were placed, including 1,492,472,400 ordinary shares acquired by the Russian Federation, represented by the Federal Agency for State Property Management, for a consideration of RR 748 million (Note 21). The Report on the share issue was registered with the FSFM on 07 February 2012.