Open Joint Stock Company BASHKIRENERGO

Consolidated Financial Statements for the Year Ended 31 December 2011

OJSC BASHKIRENERGO

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

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

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

- Properly selecting and consistently applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information as well as application of reasonable judgments and estimates;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls; throughout the Group;
- Maintaining statutory accounting records in compliance with the Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to safeguard the assets of the Group;
- Preventing and detecting fraud, including misrepresentation of financial information and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2011 were approved by management on 20 April 2012.

On behalf of management:

Makarov A. Y.	**Kharchenko P. A.**
General Director	Chief Accountant

Ufa, Russia
20 April 2012

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INDEPENDENT AUDITORS' REPORT

To Shareholders and Board of Directors of Open Joint Stock Company Bashkirenergo:

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Emphasis of matter

As discussed in Note 23 to the consolidated financial statements, on 26 March 2012 Board of Directors of OJSC "Bashkirenergo" approved its reorganisation through split into two legal entities. Reorganisation is planned to be completed during 2012-2013 subject to approval by General Shareholders Meeting of OJSC "Bashkirenergo". As a result of the reorganisation the Group will no longer exist in its present form.

The consolidated financial statements of the Group for the year ended 31 December 2011 have been prepared on a going concern basis and did not include potential effect of the reorganisation on the valuation and presentation of the Group's assets, liabilities and results of operation, which may be significant.

Deloitte & Touche

Moscow, Russia
20 April 2012

OJSC BASHKIRENERGO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011
in millions of Russian Roubles

	Notes	31/12/2011	31/12/2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	52,213	47,675
Advances paid for acquisition of property, plant and equipment		1,332	3,450
Inventories	7	156	183
Trade and other receivables	8	9	121
Other non-current assets		59	59
		53,769	**51,488**
Current assets			
Inventories	7	1,300	1,169
Trade and other receivables	8	3,531	2,658
Advances paid and prepaid expenses		270	427
Investments	9	2,006	42
Prepaid income tax		244	181
VAT recoverable and other taxes prepaid		960	1,272
Cash and cash equivalents	10	2,953	569
		11,264	**6,318**
TOTAL ASSETS		**65,033**	**57,806**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	1,093	1,093
Treasury shares	11	(282)	(282)
Retained earnings		54,902	49,023
Equity attributable to owners of the parent company		**55,713**	**49,834**
Non-controlling interests		-	285
		55,713	**50,119**
Non-current liabilities			
Loans and borrowings	12	2,265	-
Employee benefit obligations	13	625	584
Deferred tax liabilities	14	918	1,549
Other non-current liabilities		241	81
		4,049	**2,214**
Current liabilities			
Loans and borrowings	12	3	160
Trade and other payables	15	2,312	1,203
Advances received from customers		1,036	2,230
Accrued expenses and provisions	16	847	935
Income tax payable		29	108
Other taxes payable	17	1,044	837
		5,271	**5,473**
TOTAL LIABILITIES		**9,320**	**7,687**
TOTAL EQUITY AND LIABILITIES		**65,033**	**57,806**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
in millions of Russian Roubles

	Notes	Year ended 31/12/2011	Year ended 31/12/2010
CONTINUING OPERATIONS			
Revenue			
Electricity and capacity		40,353	47,365
Heat energy		12,900	12,280
Other revenue		3,008	3,207
		56,261	**62,852**
Operating expenses			
Fuel		(26,877)	(23,994)
Staff costs	18	(8,737)	(8,378)
Depreciation		(3,461)	(3,487)
Purchase of electricity and heat energy		(3,304)	(15,777)
Compensation of electricity transmission losses to a guaranteeing supplier		(2,675)	-
Repair and maintenance		(2,431)	(2,954)
Change in allowance for doubtful receivables		(1,036)	(40)
Materials and spare parts		(883)	(1,697)
Charity		(687)	(681)
Water usage expenses		(513)	(514)
Taxes, other than income tax		(479)	(492)
Rent expenses		(151)	(132)
Change in provision for tax and legal contingencies		203	362
Loss on disposal of property, plant and equipment		(11)	(132)
Other operating expenses		(833)	(916)
		(51,875)	**(58,832)**
Operating profit		**4,386**	**4,020**
Finance income		112	-
Finance costs		(51)	(39)
Profit before income tax		**4,447**	**3,981**
Income tax	14	(1,038)	(1,262)
Profit for the year from continuing operations		**3,409**	**2,719**
DISCONTINUED OPERATIONS			
Profit from discontinued operations	20	4,540	72
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,949**	**2,791**
Attributable to:			
Owners of the parent company		7,949	2,761
Non-controlling interests		-	30
		7,949	**2,791**
Earnings per share from continuing and discontinued operations			
Basic and diluted (in Roubles)	11	7.32	2.57
Earnings per share from continuing operations			
Basic and diluted (in Roubles)	11	3.18	2.49

OJSC BASHKIRENERGO

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
in millions of Russian Roubles

	Year ended 31/12/2011	Year ended 31/12/2010
OPERATING ACTIVITIES		
Profit before income tax from continuing and discontinued operations	**10,131**	**4,077**
Adjustments for:		
Depreciation	3,465	3,497
Change in provision for tax and legal contingencies	(203)	(363)
Change in provision for unused vacations and bonuses	(126)	371
Loss on disposal of property, plant and equipment	11	132
Change in allowance for doubtful receivables	1,337	40
Gain on disposal of subsidiary	(5,445)	-
Finance costs	51	39
Finance income	(112)	-
Other adjustments	122	(50)
Operating cash flow before movements in working capital	**9,231**	**7,743**
Change in inventories	(303)	347
Change in trade and other receivables	(2,625)	(246)
Change in advances paid and prepaid expenses	(98)	58
Change in taxes receivable, other than income tax	118	(139)
Change in trade and other payables	2,225	(590)
Change in advances received from customers	(508)	(295)
Change in taxes payable, other than income tax	271	143
Cash generated from operations	**8,311**	**7,021**
Income tax paid	(3,177)	(1,130)
Interest paid	(98)	(74)
Net cash generated by operating activities	**5,036**	**5,817**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,244)	(3,289)
Proceeds from disposal of property, plant and equipment	337	246
Proceeds from disposal of subsidiary, net of cash disposed of	5,246	-
Cash of special purpose entities disposed of`	(158)	-
Purchase of investments	(6,613)	(457)
Proceeds from disposal of investments	4,632	511
Interest received on deposits	112	-
Net cash used in investing activities	**(2,688)**	**(2,989)**
FINANCING ACTIVITIES		
Dividends paid	(2,066)	(1,237)
Buy back of treasury shares	-	(282)
Proceeds from loans and borrowings	7,336	15,665
Principal repayments on loans and borrowings	(5,234)	(17,003)
Net cash received from/(used in) financing activities	**36**	**(2,857)**
Net increase/(decrease) in cash and cash equivalents	**2,384**	**(29)**
Cash and cash equivalents at beginning of the year	**569**	**598**
Cash and cash equivalents at end of the year	**2,953**	**569**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

in millions of Russian Roubles

	Equity attributable to owners of the parent company					
	Share capital	**Treasury shares**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2010	**1,093**	**-**	**47,499**	**48,592**	**255**	**48,847**
Total comprehensive income for the year	-	-	2,761	**2,761**	30	**2,791**
Dividends	-	-	(1,237)	**(1,237)**	-	**(1,237)**
Buy back of treasury shares	-	(282)	-	**(282)**	-	**(282)**
Balance at 31 December 2010	**1,093**	**(282)**	**49,023**	**49,834**	**285**	**50,119**
Total comprehensive income for the year	-	-	7,949	**7,949**	-	**7,949**
Dividends	-	-	(2,070)	**(2,070)**	-	**(2,070)**
Effect from disposal of special purpose entities	-	-	-	**-**	(285)	**(285)**
Balance at 31 December 2011	**1,093**	**(282)**	**54,902**	**55,713**	**-**	**55,713**

1. GENERAL INFORMATION

Organisation

Open Joint Stock Company "Bashkirenergo" (the "Company") was established on 30 October 1992.

The principal business activities of the Company and its subsidiaries (collectively, the "Group") is generation, transmission and distribution of electricity and heat energy. The major operating facilities of the Group are located on the territory of the Russian Federation in the Republic of Bashkortostan. The Group's production assets include over 30 generation stations with about 4,296 MegaWatts of electricity generation capacity and 13,035 GigaCalories/hour of heat generation capacity.

The Company's registered office is located at: 126, Komsomolskaya st., Ufa, 450096, Russian Federation.

Shareholding structure of the Company at 31 December 2011 and 2010 was as follows:

	31/12/2011		31/12/2010	
	Number of voting shares	% of voting shares	Number of voting shares	% of voting shares
OJSC "Sistema-Invest"	523,021,107	50.17%	-	-
LLC "Depository and Corporate Technologies" (nominee)	215,613,647	20.68%	232,448,366	22.29%
CJSC "ING Bank (Eurasia)" (nominee)	93,101,213	8.93%	93,101,213	8.93%
CJSC "Depository Clearing Company" (nominee)	112,559,390	10.80%	66,378,487	6.37%
CJSC "Bashkirskie Ob'edinennye Energeticheskie Sistemy"	-	-	127,058,290	12.19%
CJSC "Novoil – Energoinvest"	-	-	127,058,290	12.19%
CJSC "UNPZ – Energoinvest"	-	-	127,058,290	12.19%
CJSC "UNKh – Energoinvest"	-	-	141,846,237	13.60%
Other, less than 5%	98,372,131	9.42%	127,718,315	12.24%
Total	**1,042,667,488**	**100.00%**	**1,042,667,488**	**100.00%**

The parent company of OJSC "Sistema-Invest", which as at 31 December 2011 owned 50.17% of the Company's ordinary shares is JSFC "Sistema".

The government of the Russian Federation exercises significant influence over the Group through its control of OJSC "INTER RAO UES", that as at 31 December 2011 owned 24.87% of the Company's voting shares, and until 28 March 2011 – through OJSC "FSK UES", that as at 31 December 2010 owned 22.29% of the Company's voting shares.

The major entities of the Group and their principal business activities are the following:

Entity name	Principal activity	Ownership 31/12/2011	Ownership 31/12/2010
OJSC "Bashkirenergo"	Holding company; distribution of electricity	-	-
LLC "Bashkirskaya Generiruyuschaya Kompaniya"	Electricity and heat energy generation	100%	100%
LLC "Bashkirskiye Raspredelitelniye Electricheskiye Seti"	Electricity transmission and connection to electric grids	100%	100%
LLC "Bashkirskiye Raspredelitelniye Teploviye Seti"	Generation and transmission of heat energy	100%	100%
LLC "Bashkirskaya Setevaya Kompaniya"	Electricity transmission	100%	100%
LLC "Energeticheskaya Sbytovaya Kompaniya Bashkortostana"	Electricity distribution	0%	100%
LLC "PGU "TEC-5"	Construction	100%	100%
LLC "Energoremont"	Maintenance of electric grids and equipment	100%	100%
LLC "Energoteploremont"	Maintenance of heat grids and equipment	100%	100%
LLC "Energoavtomatika"	Maintenance of controlling systems	100%	100%
LLC "Bashenergouchet"	Maintenance of electric accounting systems	100%	100%
LLC "Bashenergotrans"	Transportation	100%	100%
LLC "Energosnabkomplekt"	Inventory procurement	100%	100%

As at 31 December 2010, the Group included three special purpose entities which were established to provide supporting services to the Group's entities. Starting from 1 January 2011 these entities ceased to be special purpose entities to the Group due to changes in their principal activities.

Operating environment

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

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

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

Relations with the State and current industry regulations

In addition to exercising significant influence over the Group through indirect ownership of 24.87% of the Company's voting shares, the government directly affects the Group's operations by regulating tariffs for transmission and retail distribution of electricity and heat energy. Tariffs which the Group may charge for sales of electricity and heat energy are governed by regulations specific to the electricity and heat industry and by regulations applicable to natural monopolies.

The operations of all generating facilities are coordinated by the System Operator of the Unified Energy System ("SO UES") in order to meet system requirements. Operations of SO UES are controlled by the government. Moreover, the government controls a number of the Group's fuel and other suppliers.

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

Changes in industry in 2011

Starting from 1 January 2011, a competitive wholesale market has been in operation, where all of the produced electricity and capacity are sold at market-determined, unregulated prices, except for volumes of electricity sold to the residential customers and categories of consumers of an equivalent status, for whom governmental tariff regulation still applies.

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance.

This seasonality does not impact the revenue or cost recognition policies of the Group.

2. BASIS OF PRESENTATION

Statement of compliance

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

Basis of preparation

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

The consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment acquired or constructed before 1 January 2009, which were valued by an independent qualified appraiser as at 1 January 2009, as further explained in the accounting policies below. The historical cost is generally based on the fair value of the consideration paid in exchange of assets.

Going concern

As discussed in Note 23 to the consolidated financial statements, on 26 March 2012 Board of Directors of OJSC "Bashkirenergo" approved reorganisation of the company through split into two legal entities: OJSC "Bashenergoaktiv" and OJSC "BESK". Reorganisation is planned to be completed during 2012-2013, subject to approval by General Shareholders Meeting of OJSC "Bashkirenergo". As a result of the reorganisation the Group will no longer exist in its present form.

Management anticipates that reorganisation will not lead to significant changes in operating and financing activities of the individual Group's companies. On that basis, the consolidated financial statements of the Group for the year ended 31 December 2011 have been prepared on the going concern basis and do not include potential effect of the reorganisation on valuation and presentation of the Group's assets, liabilities and results of operations.

Adoption of new and revised standards and interpretations

In the preparation of the consolidated financial statements for the year ended 31 December 2011, the Group has adopted all new and revised standards and interpretations, that are relevant to its operations and are mandatory for adoption in preparation of these financial statements. Adoption of amendments to standards and interpretations presented below did not have significant effect on accounting policy, financial position or results of the Group's operations:

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

Standards and interpretations in issue but not yet effective

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

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

Management of the Group anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of those standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Group.

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary, less non-controlling interests. When assets of the subsidiary are carried at fair values and the related cumulative gain or loss has been recognised in other comprehensive income, the amounts previously recognised in other comprehensive income are accounted for as if the Company had directly disposed of the relevant assets i.e. reclassified into profit or loss for the current period or transferred directly to retained earnings as specified by applicable IFRSs. The fair value of any investments retained in the former subsidiary at the date when control is lost is recognised in accordance with IAS 39 *"Financial Instruments: Recognition and Measurement"* or, if applicable, at cost on initial recognition of an investment in an associate or a jointly controlled entity.

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

Special purpose entities

Special purpose entities ("SPEs") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of an SPE, or is exposed to risks associated with the activities of an SPE. SPEs are consolidated in the same manner as subsidiaries.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment of the Group acquired or constructed before 1 January 2009 are recorded at the amounts determined by an independent and qualified appraiser. The basis of valuation was fair value. In some instances, when property plant and equipment items are of a specialised nature, they were valued at depreciated replacement cost. For each item of property plant and equipment the new replacement cost was estimated as the current cost to replace the assets with a functionally equivalent asset. The new replacement cost was then adjusted for accrued depreciation, including physical depreciation and functional and economic obsolescence. The result of this valuation comprised deemed cost as at 1 January 2009.

Property, plant and equipment of the Group acquired after 1 January 2009 are recognised at acquisition or construction cost.

Construction cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Finance costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset.

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

Gain and loss on disposal of an item of property, plant and equipment is determined as a difference between the sale proceeds from disposal and the carrying amount of property, plant and equipment, and is recognised within other operating expenses in statement of comprehensive income.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment increases the carrying amount of the item if it is probable that the future economic benefits embodied within this part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are included in operating expenses as incurred.

Depreciation

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

Depreciation is recognised as an expense on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment are as follows:

Buildings and structures	10-60 years
Machinery and equipment	4-35 years
Other	7-20 years

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

Impairment of property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount of an asset is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Where an impairment loss is subsequently reversed, the carrying amount of an asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Cash and cash equivalents

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

Inventories

Inventories primarily consist of fuel and materials and spare parts and are valued at the lower of the cost and net realisable value. Cost of inventories is determined by weighted average method and includes cost of purchase and delivery as well as other costs incurred in bringing the inventories to the condition suitable for their intended use or realisation. Net realisable value represents the estimated selling price determined under the ordinary business terms less estimated cost to sell.

Financial assets

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

The Group's financial assets primarily include trade and other receivables and bank deposits and are classified as loans and receivables.

Loans and receivables

Loans and receivables include trade and other receivables and loans that have fixed or determinable payments that are not quoted in an active market. They are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of loans and receivables

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

For loans and receivables objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments; or
- It becomes probable that the borrower will enter bankruptcy or financial re-organisation.

In addition to the analysis of individual balances of trade receivables, certain classes of receivables are evaluated for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include past experience of collecting payments, an increase in the number of delayed payments, as well as negative changes in the economic conditions.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying value of loans and receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Change in the carrying amount of the allowance account is recognised in profit or loss.

Derecognition of financial assets

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

Financial liabilities

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

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of comprehensive income.

Provisions and contingencies

Provisions

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

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

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

Contingencies

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

Revenue recognition

Revenue from sales of electricity and heat energy is recognised when electricity and heat energy is supplied to customers.

Revenue from services on transmission of electricity and heat energy is recognised in the period when such services were rendered.

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

Other than residential customers, the Group's electricity and heat sales are made on the basis of contracts, which are signed with customers. Residential customers pay for their electricity usage based on metering systems on a monthly basis. Residential customers pay for heat usage at a flat rate based on the square meters of their apartments. Payments for hot water are calculated based on either individual meters, or on fixed tariffs when meters are not installed.

Connection services

Revenue from connection services represents a non-refundable fee for connecting the customer to the electricity grid network or a heat grids. The terms, conditions and amount of these fees are negotiated separately and are independent from fees generated by electricity and heat transmission services.

Revenue is recognised when electricity or heat energy supply is activated and the customer is connected to the grid.

In the case when the terms of connection service agreements for connecting the customers to the electricity grid network are granted in stages, revenue is recognised based on percentage of completion method after signing the act of completion.

Other revenue

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

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

Interest income

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

Employee benefit obligations

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

Defined contribution plan

The Group's entities are required to make defined contributions to the Pension Fund of the Russian Federation, which are recorded as an expense as incurred. Contributions in respect of each employee to the Pension Fund vary from 0% to 26%, depending on the annual gross remuneration of each employee.

Defined benefit plan

The amount of Group's liabilities for the unfunded defined benefit retirement plan is determined using the Project Unit Credit Method, with actuarial valuation being carried out at the end of each reporting period with immediate recognition of all actuarial gains and losses in the consolidated statement of comprehensive income.

The retirement benefit obligations recognised in the consolidated statement of financial position represent the present value of the defined benefit obligations.

Income tax

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

Current tax

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

Deferred tax

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

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

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

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

Leasing

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

The Group as lessee under operating leases

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Dividends

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

Segment reporting

Operating segments are defined as types of operations that generate revenue and incur expenses in respect of which separate financial information is available and reported on a regular basis to the chief operating decision maker, who is responsible for allocating resources and assessing performance of operating segments. Chief operating decision maker has been determined as Management Board including General Director, his deputies and directors of the largest subsidiaries of the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

- Useful economic lives of property, plant and equipment;
- Allowance for doubtful receivables;
- Provision for legal contingencies;
- Taxation.

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

Useful economic lives of property, plant and equipment

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

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

Allowance for doubtful receivables

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

Provision for legal contingencies

The Group regularly takes part in legal proceedings relating to various aspects of its business. The probability of potential losses is regularly evaluated by management, to determine the potential negative impact on the financial results of operations. The Group recognises provisions for pending litigation when it determines that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed an, if required, estimates are revised. Such revisions in estimates could have a material impact on the Group's results of operations in the future.

Taxation

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

in millions of Russian Roubles

5. SEGMENT INFORMATION

Chief operating decision maker of the Group, represented by the Management Board, has determined that each subsidiary of the Group with significant assets and operations represent an operating segment. Review and evaluation of the performance of these segments is done on a monthly basis.

Performance of the operating segments is assessed based on revenue, OIBDA (operating income before depreciation and amortisation) and net profit, calculated under the accounting standards of the Russian Federation ("RAS"). Segment assets and liabilities are not reviewed by the Management Board on a regular basis, and therefore were not disclosed in the consolidated financial statements.

In 2011, the Group sold its entire share in LLC "Energeticheskaya Sbytovaya Kompaniya Bashkortostana" (LLC "ESKB"), which main activity was distribution of electricity. The segment information presented below does not include amounts related to this company. All information about discontinued operations is disclosed in Note 20.

The table below presents segment information, prepared under RAS (unaudited), and its reconciliation to the consolidated IFRS results:

Revenue

	Year ended 31/12/2011	**Year ended 31/12/2010**
OJSC "Bashkirenergo"	39,492	73,860
LLC "Bashkirskaya Generiruyuschaya Kompaniya"	3,534	29,342
LLC "Bashkirskiye Raspredelitelniye Teploviye Seti"	8,661	6,159
LLC "Bashkirskiye Raspredelitelniye Electricheskiye Seti"	13,572	11,968
LLC "Bashkirskaya Setevaya Kompaniya"	1,229	1,491
Other	1,674	4,741
Total revenue in accordance with RAS	**68,162**	**127,561**
Inter-segment revenue	(11,901)	(64,709)
Revenue in accordance with IFRS	**56,261**	**62,852**

During the year ended 31 December 2011, revenue from the largest external customer of OJSC "Bashkirenergo" represented 34% of total revenue (2010: 23%). No other single customer contributed more than 10% to the Group's revenue.

in millions of Russian Roubles

OIBDA

	Year ended 31/12/2011	Year ended 31/12/2010
OJSC “Bashkirenergo”	8,796	1,945
LLC "Bashkirskaya Generiruyuschaya Kompaniya”	1,181	3,203
LLC “Bashkirskiye Raspredelitelniye Teploviye Seti”	(681)	318
LLC “Bashkirskiye Raspredelitelniye Electricheskiye Seti”	2,535	3,212
LLC “Bashkirskaya Setevaya Kompaniya”	303	749
Other	69	149
OIBDA in accordance with RAS	**12,203**	**9,576**
Adjustments:		
Elimination of intra-group dividends	(33)	(2,066)
Depreciation charge	(3,461)	(3,487)
Allowance for doubtful receivables	(125)	592
Provision for tax and legal contingencies	300	363
Employee benefit obligations	(41)	(87)
Finance income/(costs)	107	(39)
Gain on disposal of LLC “ESKB”	(5,669)	-
Loss from revaluation of shares in subsidiaries recognised in RAS	995	-
Other	171	(871)
Profit before income tax in accordance with IFRS	**4,447**	**3,981**

Profit for the year

	Year ended 31/12/2011	Year ended 31/12/2010
OJSC “Bashkirenergo”	6,665	1,557
LLC "Bashkirskaya Generiruyuschaya Kompaniya”	193	1,806
LLC “Bashkirskiye Raspredelitelniye Teploviye Seti”	(786)	77
LLC “Bashkirskiye Raspredelitelniye Electricheskiye Seti”	1,249	1,866
LLC “Bashkirskaya Setevaya Kompaniya”	86	476
Other	4	71
Profit for the year in accordance with RAS	**7,411**	**5,853**
Adjustments:		
Elimination of intra-group dividends	(33)	(2,066)
Depreciation charge and loss on disposal of property, plant and equipment	(1,094)	(1,429)
Allowance for doubtful receivables	(125)	592
Provision for tax and legal contingencies	300	363
Deferred taxes	319	147
Employee benefit obligations	(41)	(87)
Gain on disposal of LLC “ESKB”	(5,669)	-
Income tax related to gain on disposal of LLC “ESKB”	1,144	-
Loss from revaluation of shares in subsidiaries, recognised in RAS	995	-
Other	202	(654)
Profit for the year from continuing operations in accordance with IFRS	**3,409**	**2,719**

in millions of Russian Roubles

6. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Machinery and equipment	Other	Construction in-progress	Total
Cost or deemed cost					
Balance at 1 January 2010	**33,825**	**13,794**	**637**	**2,618**	**50,874**
Additions and transfers	862	1,871	73	1,224	**4,030**
Disposals	(124)	(56)	(163)	(62)	**(405)**
Balance at 31 December 2010	**34,563**	**15,609**	**547**	**3,780**	**54,499**
Additions and transfers	1,353	3,120	75	3,870	**8,418**
Disposals	(177)	(108)	(32)	(106)	**(423)**
Disposal of subsidiary	(30)	(20)	(32)	-	**(82)**
Balance at 31 December 2011	**35,709**	**18,601**	**558**	**7,544**	**62,412**
Accumulated depreciation					
Balance at 1 January 2010	**(1,437)**	**(1,880)**	**(37)**	-	**(3,354)**
Charge for the year	(1,797)	(1,544)	(156)	-	**(3,497)**
Eliminated on disposals	12	8	7	-	**27**
Balance at 31 December 2010	**(3,222)**	**(3,416)**	**(186)**	**-**	**(6,824)**
Charge for the year	(1,746)	(1,640)	(85)	-	**(3,471)**
Eliminated on disposals	8	42	25	-	**75**
Eliminated on disposal of subsidiary	1	8	12	-	**21**
Balance at 31 December 2011	**(4,959)**	**(5,006)**	**(234)**	**-**	**(10,199)**
Carrying value					
Balance at 31 December 2010	**31,341**	**12,193**	**361**	**3,780**	**47,675**
Balance at 31 December 2011	**30,750**	**13,595**	**324**	**7,544**	**52,213**

The capitalised interest for the year ended 31 December 2011 amounted to RUB 99 million (2010: RUB 74 million) at the average capitalisation rate of 6.8% per annum (2010: 4.4%).

7. INVENTORIES

	31/12/2011	31/12/2010
Materials and spare parts	1,284	1,151
Fuel	412	262
Other inventories	18	50
Total current inventories, at cost	**1,714**	**1,463**
Less allowance	(414)	(294)
Total current inventories	**1,300**	**1,169**
Chemical reagents	156	183
Total non-current inventories	**156**	**183**

in millions of Russian Roubles

8. TRADE AND OTHER RECEIVABLES

	31/12/2011	31/12/2010
Trade receivables	4,685	3,143
Other receivables	427	327
Less: allowance for doubtful receivables	(1,581)	(812)
Total current receivables	**3,531**	**2,658**
Long-term receivables	618	796
Less: allowance for doubtful receivables	(609)	(675)
Total non-current receivables	**9**	**121**

The average credit period for the Group’s customers is 30 days (2010: 30 days). During this period no interest is charged on the outstanding balances. Thereafter, in respect of receivables for electricity supply, interest is charge at the rate of 0.3% per day.

In determination of the allowance for doubtful receivables, the Group’s management performs an analysis of expected recoverability separately for each customer. Generally, the Group provides for all accounts receivable over 90 days because historical experience is such that receivables due beyond 90 days are generally not recovered. Trade and other receivables between 30 and 90 days are provided for based on estimated unrecoverable amounts.

The allowance amount is regularly reassessed based on the facts and circumstances existing at each reporting date.

There is no formal credit rating analysis performed by the Group before accepting new customers due to the fact that supply of electricity and heat energy and transmission are a monopoly services.

Balances of the Group’s top five counterparties are presented as follows:

	31/12/2011	31/12/2010
LLC “ESKB”	1,528	25
OJSC "Koncern Rosenergoatom"	65	90
OJSC "Mosenergosbyt"	39	-
OJSC "Ufaneftehim"	25	2
OJSC “OGK-1”	17	-
Total	**1,674**	**117**

Trade and other receivables included amounts that were past due at the reporting date. The Group has not recognised the allowance for doubtful receivables because these amounts were still considered recoverable. The Group did not hold any collateral for these balances.

Age of trade and other receivables that were past due but not impaired is presented as follows:

	31/12/2011	31/12/2010
Less than 30 days	20	-
From 31 to 90 days	257	197
From 91 to 180 days	11	18
From 181 to 360 days	1	24
More than 361 days	9	360
Total	**298**	**599**

in millions of Russian Roubles

Movement in the allowance for doubtful receivables is presented as follows:

	31/12/2011	31/12/2010
Balance at beginning of the year	**1,487**	**1,753**
Additional allowance recognised	1,560	40
Disposed on disposal of subsidiary	(301)	-
Written off as uncollectible	(333)	(306)
Reverse of previously recognised allowance	(223)	-
Balance at end of the year	**2,190**	**1,487**

Age of impaired trade and other receivables is presented as follows:

	31/12/2011	31/12/2010
Less than 30 days	205	5
From 31 to 90 days	217	74
From 91 to 180 days	232	92
From 181 to 360 days	487	100
More than 361 days	1,049	1,216
Total	**2,190**	**1,487**

The Group's management believes that allowance for doubtful receivables recorded in the consolidated financial statements is sufficient to cover its credit risk.

9. INVESTMENTS

	31/12/2011	31/12/2010
Bank deposits	2,005	-
Loans issued	1	42
Total	**2,006**	**42**

Bank deposits as at 31 December 2011 include deposit in the OJSC JCB MBRD in the amount of RUB 2,000 million at 9.05% per annum, maturing in June 2012.

10. CASH AND CASH EQUIVALENTS

	31/12/2011	31/12/2010
Current bank accounts	274	569
Bank deposits with maturity up to three months	2,679	-
Total	**2,953**	**569**

The table below presents credit quality analysis of banks where the Group held its cash and cash equivalents:

Bank	Rating agency	Rating	31/12/2011	31/12/2010
VTB	Fitch Ratings	BBB	1,074	-
Sberbank	Fitch Ratings	BBB	735	-
Nomos Bank	Fitch Ratings	BB	550	-
Raiffeisenbank	Fitch Ratings	BBB+	325	-
Uralsib	Fitch Ratings	BB-	238	547
Other banks			31	22
Total			**2,953**	**569**

in millions of Russian Roubles

11. CAPITAL AND RESERVES

Share capital

Share capital of OJSC "Bashkirenergo" consists of 1,042,667,488 fully paid ordinary shares at par value of RUB 1 each, and 50,060,997 fully paid preference shares at par value of RUB 1 each.

Ordinary shares carry one vote per share and a right to dividends. Preference shares are entitled to receive a fixed preference dividend of 6.44% of net profit of the Company for the year as determined under RAS before any dividends are declared to the ordinary shareholders. Preference shares carry no rights to participate in the distribution of any surplus assets or profits, and no voting rights.

Buy back of treasury shares

One of Group's subsidiaries held 10,701,285 shares of the Company repurchased during 2010 year for RUB 282 million.

Dividends

	Year ended 31/12/2011	Year ended 31/12/2010
Dividends declared in respect of the year ended 31 December 2009:		
Ordinary shares (RUB 1.09 per share)	-	1,122
Preference shares (RUB 2.30 per share)	-	115
Dividends declared in respect of the year ended 31 December 2010:		
Ordinary shares (RUB 0.94 per share)	974	-
Preference shares (RUB 2.01 per share)	101	-
Dividends declared in respect of the nine months ended 30 September 2011:		
Ordinary shares (RUB 0.92 per share)	949	-
Preference shares (RUB 0.92 per share)	46	-
Total	**2,070**	**1,237**

Earnings per share

Earnings per share from continuing and discontinued operations

	Year ended 31/12/2011	Year ended 31/12/2010
Weighted average number of ordinary shares outstanding during the year (number of shares)	1,031,966,203	1,035,367,159
Profit for the year attributable to owners of the parent company	7,949	2,761
Less: earnings attributable to holders of the Company's preference shares	(391)	(103)
Basic and diluted earnings per share, in Roubles	**7.32**	**2.57**

Earnings per share from continuing operations

	Year ended 31/12/2011	Year ended 31/12/2010
Weighted average number of ordinary shares outstanding during the year (number of shares)	1,031,966,203	1,035,367,159
Profit for the year attributable to owners of the parent company	3,409	2,689
Less: earnings attributable to holders of the Company's preference shares	(125)	(103)
Basic and diluted earnings per share, in Roubles	**3.18**	**2.49**

in millions of Russian Roubles

12. LOANS AND BORROWINGS

	31/12/2011		31/12/2010	
	Rate	Balance	Rate	Balance
Sberbank	7.0%	2,268		-
Uralsib		-	4.5%	150
Other		-		10
		2,268		**160**
Long-term portion of loans and borrowings		**2,265**		**-**
Short-term portion of loans and borrowings		**3**		**160**

Unused credit facilities

The following committed credit facilities were available to the Group:

	31/12/2011	31/12/2010
Uralsib	4,350	3,650
Sberbank	2,277	-
Absolutbank	-	750
Credit Europa Bank	-	500
Less: amounts withdrawn	(2,265)	(150)
Total unused credit facilities	**4,362**	**4,750**

13. EMPLOYEE BENEFIT OBLIGATIONS

Amounts recognised in the statement of comprehensive income in respect of the defined benefit plan were as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
Current service cost	38	27
Interest	46	39
Past service cost	101	-
Gain from curtailment	(45)	-
Actuarial (gains)/losses	(26)	58
Total	**114**	**124**

Movement of employee benefit obligations:

	31/12/2011	31/12/2010
Balance at beginning of the year	**584**	**497**
Benefits paid	(49)	(37)
Current service cost	38	27
Interest	46	39
Past service cost	101	-
Gain from curtailment	(45)	-
Actuarial (gains)/losses	(26)	58
Disposed of on disposal of subsidiary	(24)	-
Balance at end of the year	**625**	**584**

in millions of Russian Roubles

During 2012, the Group expects to make contribution of RUB 29 million under its defined benefit plan.

Key assumptions used in estimation of obligations were as follows:

	31/12/2011	31/12/2010
Discount rate	8.3%	7.8%
Predictable pensions increase	5.0%	5.0%
Retirement age (years)	58	58

14. INCOME TAX

	Year ended 31/12/2011	Year ended 31/12/2010
Current income tax expense	1,672	1,409
Deferred tax benefit	(634)	(147)
Total	**1,038**	**1,262**

A reconciliation of theoretical income tax calculated at the statutory rate of 20% to the amount of actual income tax expense recorded in the statement of comprehensive income is presented as follows:

	Year ended 31/12/2011	Year ended 31/12/2010
Profit from continuing operations before income tax	**4,447**	**3,981**
Income tax at statutory rate of 20%	889	796
Effect of expenses not deductible for tax purposes, net	149	466
Total	**1,038**	**1,262**

Movements in the Group's deferred tax assets and liabilities are presented as follows:

	31/12/2011	Recognised in profit or loss	Disposed of as discontinued operations	31/12/2010	Recognised in profit or loss	01/01/2010
Property, plant and equipment	(1,913)	253	3	(2,169)	226	(2,395)
Accounts receivable and advances paid	456	199	(60)	317	(67)	384
Employee benefits obligations	125	9	(1)	117	18	99
Accrued expenses and provisions	164	25	(1)	140	71	69
Tax losses carried forward	95	95	-	-	-	-
Other	155	136	(28)	46	(100)	146
Total	**(918)**	**718**	**(87)**	**(1,549)**	**148**	**(1,697)**

in millions of Russian Roubles

15. TRADE AND OTHER PAYABLES

	31/12/2011	31/12/2010
Trade payables	2,193	1,014
Dividends payable	38	34
Other payables	81	155
Total	**2,312**	**1,203**

The average credit period provided to the Group by its suppliers is 30 days (2010: 30 days). No interest is charged on the trade payables during this period. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

16. ACCRUED EXPENSES AND PROVISIONS

	31/12/2011	31/12/2010
Accrued salary	708	487
Provision for unused vacations	103	209
Provision for legal and tax contingencies	36	239
Total	**847**	**935**

17. OTHER TAXES PAYABLE

	31/12/2011	31/12/2010
Value added tax	556	605
Social security contributions	324	85
Property tax	106	97
Other taxes	58	50
Total	**1,044**	**837**

18. STAFF COSTS

	Year ended 31/12/2011	Year ended 31/12/2010
Wages and salaries	6,662	6,692
Social security contributions	2,075	1,686
Total	**8,737**	**8,378**

Social security contributions for the year ended 31 December 2011 included contribution to the Pension Fund of the Russian Federation in the amount of RUB 1,540 million (2010: RUB 1,134 million).

in millions of Russian Roubles

19. RELATED PARTIES

Related parties include shareholders, entities under common ownership and control with the Group and members of key management personnel. The Company and its subsidiaries in the ordinary course of business enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

As a result of LLC “ESKB” disposal to a government-related entity (Note 20), transactions with LLC “ESKB” were included in the table below from the date of disposal till 31 December 2011.

Transactions with related parties

	Sales of electricity and heat energy		Purchase of goods and services	
	Year ended 31/12/2011	Year ended 31/12/2010	Year ended 31/12/2011	Year ended 31/12/2010
JSFC “Sistema” and subsidiaries	3,717	12,498	1,197	1,148
Government-related entities	6,930	3,553	28,543	10,829
Total	**10,647**	**16,051**	**29,740**	**11,977**

Outstanding balances with related parties

	Amounts owed by related parties		Amounts owed to related parties, including loans received	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
JSFC “Sistema” and subsidiaries	60	595	152	93
Government-related entities	2,172	162	2,849	543
Total	**2,232**	**757**	**3,001**	**636**

	Cash balances		Short-term investments	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
JSFC “Sistema” and subsidiaries	1	-	2,000	-
Government-related entities	1,819	22	-	-
Total	**1,820**	22	**2,000**	**-**

During the year ended 31 December 2011, the Group transferred RUB 307 million (year ended 31 December 2010: RUB 299 million) as a donation to charity fund “Sistema”, a related party.

Compensation of key management personnel

The remuneration paid to directors and other key management personnel in the form of salaries and other short-term employee benefits amounted to RUB 172 million (2010: RUB 82 million).

20. DISPOSAL OF SUBSIDIARY AND SPECIAL PURPOSE ENTITIES

Disposal of LLC “Energeticheskaya Sbytovaya Kompaniya Bashkortostana”

In August 2011, the Group entered into a sale agreement to dispose of LLC “Energeticheskaya Sbytovaya Kompaniya Bashkortostana” (LLC “ESKB”), which main activity was distribution of electricity. The transaction was completed on 12 September 2011, when control passed to the acquirer. The Group ceased consolidation of LLC “ESKB” from 1 September 2011.

Results of LLC “ESKB” were presented as discontinued operations in the consolidated statement of comprehensive income for the year ended 31 December 2011. Comparative information for the year ended 31 December 2010 was adjusted correspondingly.

in millions of Russian Roubles

Analysis of assets and liabilities of LLC "ESKB" at the disposal date

	01/09/2011
Non-current assets	
Property, plant and equipment	61
Deferred tax assets	87
Other non-current assets	60
Current assets	
Cash and cash equivalents	474
Trade and other receivables	1,742
Prepaid income tax	133
Other current assets	207
Current liabilities	
Trade and other payables	(1,939)
Advances received from customers	(531)
Other current liabilities	(19)
Net assets disposed of	**275**

Gain on disposal of LLC "ESKB"

	Eight months ended 31/08/2011
Cash consideration received	5,720
Less: net assets disposed of	(275)
	5,445

Profit for the period from discontinued operations

	Eight months ended 31/08/2011	Year ended 31/12/2010
Revenue	27,782	646
Operating expenses	(27,482)	(550)
Profit before tax	300	96
Income tax	(61)	(24)
Profit for the period	**239**	**72**
Gain on disposal of subsidiary	5,445	-
Income tax	(1,144)	-
Profit for the period from discontinued operations	**4,540**	**72**

Cash flows from discontinued operations

	Eight months ended 31/08/2011	Year ended 31/12/2010
Net cash generated from operating activities	510	96
Net cash generated from/(used in) investing activities	16	(6)
Net cash used in financing activities	(57)	(85)
Net cash inflows	**469**	**5**

in millions of Russian Roubles

Disposal of special purpose entities

As at 31 December 2010, the Group included three special purpose entities which were established to provide supporting services to the Group's entities. Starting from 1 January 2011, these companies ceased to be special purpose entities to the Group due to changes in their principal activities.

Analysis of assets and liabilities of special purpose entities at the disposal date

	01/01/2011
Cash and cash equivalents	158
Other assets	644
Liabilities	(517)
Net assets disposed of	**285**

21. COMMITMENTS AND CONTINGENCIES

Capital commitments

As at 31 December 2011, the Group's contractual capital commitments amounted to RUB 828 million (31 December 2010: RUB 3,118 million).

Operating leases: Group as a lessee

The land on which the Group's production facilities are located is partially owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2060. According to the term of lease agreements rent fees are revised annually by reference to an order issued by the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities.

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

	31/12/2011	31/12/2010
Due within one year	177	135
Due from second to fifth year	547	522
Due thereafter	2,701	3,645
Total	**3,425**	**4,302**

Litigations

The Group has been and continues to be subject of legal proceedings from time to time, none of which has had, individually or in the aggregate, a material adverse impact on financial position of the Group. Management believes that the amount of provision recorded in the consolidated financial statements in respect of legal contingencies is sufficient to cover the risk of negative impact on the Group's financial position or operating results.

Non-compliance with the legislation

In accordance with the regulations applicable to the Russian electricity market, starting from 1 January 2011 it is prohibited for an entity (or a group of entities) to operate as an integrated business model including generation and transmission of electricity. In response to the new regulations, the Group obtained approval from the Federal Antimonopoly Service in October 2010 to perform a reorganisation of the Group in the form of spin-off of its electricity transmission activities. However, the reorganisation plan has not been approved by the shareholders at the Extraordinary General Shareholders Meeting that took place in December 2010.

The Group is unable to predict the outcome of potential actions taken by the government and therefore cannot reasonably predict the impact that the ultimate resolution of this matter will have on its operations and financial results.

Tax contingencies in the Russian Federation

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

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

Russian tax authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations. While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation (Note 16), the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Environmental matters

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

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

Insurance

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

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

in millions of Russian Roubles

22. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital to ensure increasing returns to the equity holders through the optimisation of the debt and equity balance. Management of the Group reviews the capital structure on a regular basis. Based on the results of this review, the Group takes steps to balance its overall capital structure through the payment of dividends, new share issues and share buy back as well as the issue of new debt or the redemption of existing debt.

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

	31/12/2011	31/12/2010
Loans and borrowings	2,268	160
Less cash and cash equivalents	(2,953)	(569)
Net debt	**(685)**	**(409)**
Equity attributable to owners of the parent company	55,713	49,834
Gearing ratio	**(0.01)**	**(0.01)**

Categories of financial instruments

	31/12/2011	31/12/2010
Financial assets		
Trade and other receivables	3,540	2,779
Investments	2,006	42
Cash and cash equivalents	2,953	569
Total	**8,499**	**3,390**
Financial liabilities		
Loans and borrowings	2,268	160
Trade and other payables	2,312	1,203
Total	**4,580**	**1,363**

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

Credit risk

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

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

	31/12/2011	31/12/2010
Trade and other receivables	3,540	2,779
Investments	2,006	42
Cash and cash equivalents	2,953	569
Total	**8,499**	**3,390**

in millions of Russian Roubles

The Group's trade receivables include balances due by a large number of customers spread across different industries and geographical areas of the Russian Federation. The majority of customers are participants of the wholesale electric power market. LLC "ESKB" is the largest customer of the Group, which main activity is distribution of electricity and acting a guaranteeing supplier in the Republic of Bashkortostan.

Credit risk is managed on a Group level. There is no independent rating of the creditworthiness of the wholesale customers and therefore the Group analyses the credit quality of its customers taking into account their financial position, past experience and other factors. Trade receivables balance is constantly monitored by management, and the special divisions of the Group are engaged in collecting activities on a regular basis.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. The Group has an access to financial facilities as presented in note 12. Based on the above, management believes, that the Group is in a position to meet all its obligations as they fall due from these facilities and operating cash flows.

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

	Total	Due within six months	Due from six months to one year	Due from one to five years
Loans and borrowings	**2,585**	82	80	2,423
Trade and other payables	**2,312**	2,312	-	-
Total	**4,897**	**2,394**	**80**	**2,423**

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

	Total	Due within six months	Due from six months to one year	Due from one to five years
Loans and borrowings	**171**	13	4	154
Trade and other payables	**1,203**	1,203	-	-
Total	**1,374**	**1,216**	**4**	**154**

23. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 26 March 2012, Board of Directors of OJSC “Bashkirenergo” approved main characteristics of the Company’s reorganisation, which are subject for approval at the Extraordinary shareholders meeting on 20 June 2012. It is recommended to shareholders to approve reorganisation in the form of splitting OJSC “Bashkirenergo” into two legal entities:

- Open Joint Stock Company “Bashenergoaktiv” (OJSC “Bashenergoaktiv”), to which generating business will be transferred, including LLC “BGK”, LLC “BashRTS” and LLC “PGU TEC-5”;
- Open Joint Stock Company “Bashkirskaya Elektrosetevaya Kompaniya” (OJSC “BESK”), which will carry out electricity transmission business through LLC “BSK” and LLC “BashRES”.

Simultaneously with reorganisation of OJSC “Bashkirenergo”, shareholders are supposed to make a decision about reorganisation of a newly created OJSC “Bashenergoaktiv” in the form of merger with Open Joint Stock Company “INTER RAO UES”.

Reorganisation assumes the following allocation of ordinary and preference shares of OJSC “BESK” and OJSC “Bashenergoaktiv” between shareholders of OJSC “Bashkirenergo”:

- OJSC “INTER RAO UES” will not receive shares of OJSC “BESK”, all its shares owned will be converted into shares of OJSC “Bashenergoaktiv”;
- Shareholders affiliated with JSFC “Sistema” will not receive shares of OJSC “Bashenergoaktiv”, all their shares will be converted into shares of OJSC “BESK”;
- All other shareholders of OJSC “Bashkirenergo” will receive shares of both newly created companies, OJSC “BESK” and OJSC “Bashenergoaktiv”, in proportion to the number of their shares in OJSC “Bashkienergo” at the conversion date.

Subsequently, in accordance with affiliation agreement between OJSC “Bashenergoaktiv” and OJSC “INTER RAO UES”, ordinary and preference type A shares of OJSC “Bashenergoaktiv” will be converted into additional shares of OJSC “INTER RAO UES”.