

RUSHYDRO GROUP

**Consolidated Financial Statements
prepared in accordance with IFRS
with independent auditor's report**

As at and for the year ended 31 December 2011

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Independent auditor's report

Consolidated Financial Statements as at and for the year ended 31 December 2011

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Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company RusHydro (OJSC RusHydro):

- 1 We have audited the accompanying consolidated financial statements of OJSC RusHydro and its subsidiaries (the "Group") which comprise the consolidated Statement of Financial Position as at 31 December 2011, the consolidated Income Statement and the consolidated Statements of 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 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, Russian Federation

ZAO PricewaterhouseCoopers Audit, White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
T: +7 (495) 967 6000, F: +7 (495) 967 6001, www.pwc.ru

RusHydro 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 (restated) |
|---|-------|------------------|--------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 568,629 | 518,476 |
| Investments in associates and jointly controlled entities | 9 | 33,686 | 37,128 |
| Available-for-sale financial assets | 10 | 19,738 | 4,643 |
| Other non-current assets | 11 | 36,136 | 20,019 |
| Total non-current assets | | 658,189 | 580,266 |
| Current assets | | | |
| Cash and cash equivalents | 12 | 47,337 | 22,569 |
| Accounts receivable and prepayments | 13 | 49,871 | 41,962 |
| Inventories | 14 | 17,972 | 14,788 |
| Other current assets | 15 | 9,944 | 30,215 |
| Total current assets | | 125,124 | 109,534 |
| Assets of subsidiary acquired exclusively with a view for resale | 1, 16 | 28,470 | - |
| Non-current assets and assets of disposal group classified as held for sale | 1, 16 | - | 55,193 |
| TOTAL ASSETS | | 811,783 | 744,993 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 17 | 290,302 | 288,695 |
| Treasury shares | 17 | (10,662) | (9,744) |
| Share premium | 17 | 21,434 | 20,453 |
| Retained earnings and other reserves | | 197,416 | 210,585 |
| Equity attributable to the shareholders of OJSC RusHydro | | 498,490 | 509,989 |
| Non-controlling interest | | 27,169 | 29,579 |
| TOTAL EQUITY | | 525,659 | 539,568 |
| Non-current liabilities | | | |
| Deferred income tax liabilities | 18 | 44,340 | 44,109 |
| Non-current debt | 20 | 102,624 | 51,579 |
| Other non-current liabilities | 21 | 13,001 | 10,506 |
| Total non-current liabilities | | 159,965 | 106,194 |
| Current liabilities | | | |
| Current debt and current portion of non-current debt | 20 | 21,414 | 31,187 |
| Accounts payable and accruals | 22 | 40,030 | 27,558 |
| Accounts payable in respect of share issues | 17 | 43,604 | 1,500 |
| Taxes payable | 23 | 8,018 | 9,480 |
| Total current liabilities | | 113,066 | 69,725 |
| Liabilities of subsidiary acquired exclusively with a view for resale | 1, 16 | 13,093 | - |
| Liabilities of disposal group classified as held for sale | 1, 16 | - | 29,506 |
| TOTAL LIABILITIES | | 286,124 | 205,425 |
| TOTAL EQUITY AND LIABILITIES | | 811,783 | 744,993 |

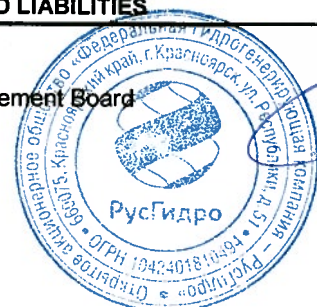
Chairman of Management Board

E. V. Dod

Chief Accountant

D. V. Finkel

26 April 2012



The accompanying notes are an integral part of these Consolidated Financial Statements

RusHydro 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 (restated) |
|---|-----------|--------------------------------|--|
| CONTINUING OPERATIONS | | | |
| Revenue | 24 | 362,599 | 526,581 |
| Government grants | 25 | 9,097 | 8,295 |
| Expenses | 26 | (313,617) | (479,119) |
| Impairment of property, plant and equipment | 8 | (6,963) | (25,172) |
| Operating profit | | 51,116 | 30,585 |
| Gain on disposal of available-for-sale financial assets held for sale and disposal group | 16 | 750 | - |
| Gain on disposal of available-for-sale financial assets | | - | 2,509 |
| Finance income | 27 | 4,183 | 4,194 |
| Finance costs | 27 | (6,392) | (9,734) |
| Share of loss of associates and jointly controlled entities | 9 | (5,945) | (9,060) |
| Profit before income tax | | 43,712 | 18,494 |
| Total income tax expense | 18 | (11,934) | (8,095) |
| Profit for the period from continuing operations | | 31,778 | 10,399 |
| DISCONTINUED OPERATIONS | | | |
| Loss for the period from discontinued operations | 16 | (2,285) | - |
| Profit for the period | | 29,493 | 10,399 |
| Attributable to: | | | |
| Shareholders of OJSC RusHydro | | 31,411 | 9,139 |
| Non-controlling interest | | (1,918) | 1,260 |
| Earnings per ordinary share for profit from continuing operations attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share) | 28 | 0.1146 | 0.0350 |
| Loss per ordinary share for loss from discontinued operations attributable to the shareholders of OJSC RusHydro – basic and diluted (in Russian Rubles per share) | 28 | (0.0030) | - |
| Weighted average number of shares outstanding – basic and diluted (thousands of shares) | 28 | 281,247,952 | 260,732,852 |

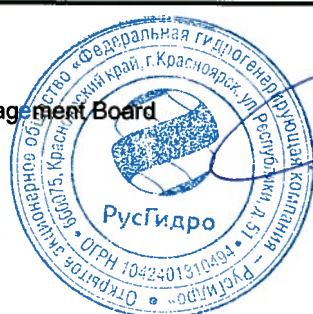
Chairman of Management Board

E. V. Dod

Chief Accountant

D. V. Finkel

26 April 2012



RusHydro 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 (restated) |
|--|------|--------------------------------|--|
| Profit for the period | | 29,493 | 10,399 |
| Other comprehensive income, net of tax: | | | |
| (Revaluation write-down due to impairment) / revaluation of property, plant and equipment | 8 | (11,299) | 81,210 |
| (Loss) / gain arising on available-for-sale financial assets | 10 | (5,070) | 2,380 |
| Loss arising on disposed available-for-sale financial assets | 16 | (2,577) | - |
| Accumulated gain on available-for-sale financial assets recycled to the Income Statement on their disposal | 16 | (2,040) | (1,736) |
| Gain arising on available-for-sale financial assets classified as held for sale | | - | 293 |
| Other comprehensive income | | (192) | 464 |
| Total comprehensive income for the period | | 8,315 | 93,010 |
| Attributable to: | | | |
| Shareholders of OJSC RusHydro | | 14,518 | 88,656 |
| Non-controlling interest | | (6,203) | 4,354 |

Chairman of Management Board

Chief Accountant



(Handwritten signatures in blue ink)

E. V. Dod

D. V. Finkel

26 April 2012

RusHydro Group
Consolidated Statement of Cash Flows 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 (restated) |
|--|-----------|--------------------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Profit before income tax | | 43,712 | 18,494 |
| Depreciation of property, plant and equipment | 8, 16, 26 | 16,421 | 14,730 |
| Loss on disposal of property, plant and equipment | 26 | 2,464 | 5,386 |
| Share of loss of associates and jointly controlled entities | | 5,945 | 9,060 |
| Gain on disposal of available-for-sale financial assets held for sale and disposal group | 16 | (750) | - |
| Gain on disposal of available-for-sale financial assets | | - | (2,509) |
| Finance income | 27 | (4,183) | (4,194) |
| Finance costs | 27 | 6,392 | 9,734 |
| Impairment of property, plant and equipment | | 6,963 | 25,172 |
| Impairment of accounts receivable | 26 | 8 | 2,751 |
| Effect of Share Option Programme expenses | 7 | 768 | 783 |
| Pension expenses | 19 | 526 | 164 |
| Other income | | (144) | (96) |
| Operating cash flows before working capital changes and income tax paid | | 78,122 | 79,475 |
| Working capital changes: | | | |
| Increase in accounts receivable and prepayments | | (13,054) | (19,057) |
| Decrease in other current assets | | - | 949 |
| Increase in inventories | | (2,455) | (1,671) |
| Increase in other non-current assets | | (2,832) | (1,126) |
| Increase in accounts payable and accruals | | 15,250 | 6,335 |
| Increase in other taxes payable | | 1,094 | 1,886 |
| Increase in other non-current liabilities | | 985 | - |
| Income tax paid | | (12,441) | (16,276) |
| Net cash generated by operating activities | | 64,669 | 50,515 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment | | (81,905) | (70,519) |
| Proceeds from sale of property, plant and equipment | | 394 | 285 |
| Disposal of subsidiaries (Disposal group) | 16 | (17,325) | - |
| Purchase of promissory notes and other investments | | (10,441) | (41,698) |
| Proceeds from sale of promissory notes and other investments | | 30,648 | 17,632 |
| Purchase of subsidiaries from parties under common control | | (173) | (468) |
| Purchase of subsidiaries from third parties, net of cash acquired | | (5,246) | (1,341) |
| Purchase of associates and other equity investments | | (600) | (300) |
| Settlement of derivative instruments | | (187) | (1,656) |
| Interest received | | 3,837 | 3,182 |
| Acquisition of subsidiary acquired with a view for resale | | 33 | - |
| Proceeds from insurance indemnity | | - | 6,046 |
| Additional contribution to jointly controlled entity | | - | (1,151) |
| Net cash used in investing activities | | (80,965) | (89,988) |

RusHydro Group

Consolidated Statement of Cash Flows 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 (restated) |
|--|---------------|--------------------------------|--|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from current debt | 20 | 31,196 | 37,340 |
| Proceeds from non-current debt | 20 | 70,914 | 49,387 |
| Repayment of debt | 20 | (62,358) | (70,365) |
| Interest paid | | (6,992) | (6,493) |
| Dividends paid to the shareholders of OJSC RusHydro | | (2,450) | - |
| Dividends paid by the Group to non-controlling interest holders | | (210) | (1,573) |
| Proceeds from share issue | 17 | 3,338 | 6,284 |
| Proceeds from share issue in subsidiaries | 22 | 3,397 | 812 |
| Finance lease payments | | (1,667) | (994) |
| Purchase of non-controlling interest | | - | (748) |
| Purchase of treasury shares | | - | (253) |
| Net cash generated by financing activities | | 35,168 | 13,397 |
| Net cash generated by subsidiary acquired with a view for resale | | 44 | - |
| Foreign exchange gains on cash balances | | 33 | 109 |
| Increase / (Decrease) in cash and cash equivalents | | 18,949 | (25,967) |
| Cash and cash equivalents at the beginning of the period | | 28,465 | 54,432 |
| Cash and cash equivalents at the end of the period | 12, 16 | 47,414 | 28,465 |

Chairman of Management Board

Chief Accountant



(Handwritten signatures in blue ink)

E. V. Dod

D. V. Finkel

26 April 2012

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

| | Note | Share capital | Treasury shares | Share premium | Merger reserve | Revaluation reserve | Available-for-sale financial assets | Retained earnings | Equity attributable to shareholders of OJSC RusHydro | Non-controlling interest | Total equity |
|--|------|----------------|-----------------|---------------|------------------|---------------------|-------------------------------------|-------------------|--|--------------------------|----------------|
| As at 1 January 2011 (restated) | | 288,695 | (9,744) | 20,453 | (94,973) | 229,901 | 7,401 | 68,256 | 509,989 | 29,579 | 539,568 |
| Profit for the period | | - | - | - | - | - | - | 31,411 | 31,411 | (1,918) | 29,493 |
| Loss arising on available-for-sale financial assets | 10 | - | - | - | - | - | (5,029) | - | (5,029) | (41) | (5,070) |
| Loss arising on disposed available-for-sale financial assets | 16 | - | - | - | - | - | (2,605) | - | (2,605) | 28 | (2,577) |
| Accumulated gain on available-for-sale financial assets recycled to the Income Statement on their disposal | 16 | - | - | - | - | - | (2,040) | - | (2,040) | - | (2,040) |
| Revaluation write-down due to impairment of property, plant and equipment | 8 | - | - | - | - | (7,027) | - | - | (7,027) | (4,272) | (11,299) |
| Other comprehensive income | | - | - | - | - | - | - | (192) | (192) | - | (192) |
| Total comprehensive income | | - | - | - | - | (7,027) | (9,674) | 31,219 | 14,518 | (6,203) | 8,315 |
| Share issue | 17 | 1,607 | - | 981 | - | - | - | - | 2,588 | - | 2,588 |
| Acquisition of treasury shares | 17 | - | (918) | - | - | - | - | - | (918) | - | (918) |
| Acquisitions under common control | 17 | - | - | - | (32,243) | 6,396 | - | (1,502) | (27,349) | 11,611 | (15,738) |
| Disposal of subsidiaries (Disposal group) | 16 | - | - | - | - | (110) | 110 | - | - | (5,593) | (5,593) |
| Effect of changes in non-controlling interest | 17 | - | - | - | - | - | - | 1,344 | 1,344 | (2,015) | (671) |
| Dividends | 17 | - | - | - | - | - | - | (2,450) | (2,450) | (210) | (2,660) |
| Effect of Share Option Programme | 7 | - | - | - | - | - | - | 768 | 768 | - | 768 |
| Transfer of revaluation reserve to retained earnings | | - | - | - | - | (480) | - | 480 | - | - | - |
| As at 31 December 2011 | | 290,302 | (10,662) | 21,434 | (127,216) | 228,680 | (2,273) | 98,225 | 498,490 | 27,169 | 525,659 |

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

| | Note | Share capital | Treasury shares | Share premium | Merger reserve | Revaluation reserve | Available-for-sale financial assets | Retained earnings | Equity attributable to shareholders of OJSC RusHydro | Non-controlling interest | Total equity |
|--|------|----------------|-----------------|---------------|-----------------|---------------------|-------------------------------------|-------------------|--|--------------------------|----------------|
| As at 1 January 2010 (restated) | | 269,695 | (12,359) | 12,005 | (94,482) | 153,295 | 5,664 | 57,159 | 390,977 | 25,530 | 416,507 |
| Profit for the period | | - | - | - | - | - | - | 9,139 | 9,139 | 1,260 | 10,399 |
| Gain arising on available-for-sale financial assets | 10 | - | - | - | - | - | 2,330 | - | 2,330 | 50 | 2,380 |
| Accumulated gain on available-for-sale financial assets recycled to the Income Statement on their disposal | | - | - | - | - | - | (886) | - | (886) | (850) | (1,736) |
| Gain arising on available-for-sale financial assets classified as held for sale | 16 | - | - | - | - | - | 293 | - | 293 | - | 293 |
| Revaluation of property, plant and equipment | | - | - | - | - | 77,316 | - | - | 77,316 | 3,894 | 81,210 |
| Other comprehensive income | | - | - | - | - | - | - | 464 | 464 | - | 464 |
| Total comprehensive income | | - | - | - | - | 77,316 | 1,737 | 9,603 | 88,656 | 4,354 | 93,010 |
| Share issue | 17 | 19,000 | (12,741) | 2,850 | - | - | - | - | 9,109 | - | 9,109 |
| Acquisition of treasury shares | | - | (253) | - | - | - | - | - | (253) | - | (253) |
| Acquisition of associates | 17 | - | 15,609 | 5,598 | - | - | - | - | 21,207 | - | 21,207 |
| Acquisition of subsidiaries from parties under common control | | - | - | - | (468) | - | - | - | (468) | - | (468) |
| Effect of changes in non-controlling interest | 17 | - | - | - | - | - | - | - | 3 | 1,634 | 1,637 |
| Dividends | 17 | - | - | - | (23) | - | - | - | (23) | (1,951) | (1,974) |
| Effect of Share Option Programme | 7 | - | - | - | - | - | - | 783 | 783 | - | 783 |
| Transfer of revaluation reserve to retained earnings | | - | - | - | - | (710) | - | 710 | - | - | - |
| Effect of business combination | | - | - | - | - | - | - | (2) | (2) | 12 | 10 |
| As at 31 December 2010 (restated) | | 288,695 | (9,744) | 20,453 | (94,973) | 229,901 | 7,401 | 68,256 | 509,989 | 29,579 | 539,568 |

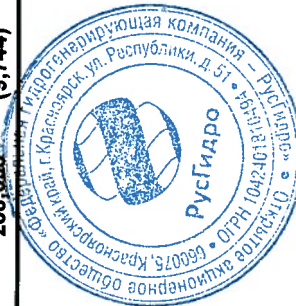
Chairman of Management Board

E. V. Dod

Chief Accountant

D. V. Finkel

26 April 2012



RusHydro Group

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011

(in millions of Russian Rubles unless noted otherwise)

Note 1. The Group and its operations

Open Joint Stock Company RusHydro (OJSC RusHydro – hereinafter referred to as “the Company”) was incorporated as a wholly-owned subsidiary of the Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia (RAO UES) on 26 December 2004, based on the Decision of the Board of Directors of RAO UES dated 24 December 2004 in accordance with the Resolution of the Russian Government No. 526 dated 11 July 2001 “On reforming the Russian Federation electric utilities industry” and Resolutions of the Russian Government No. 1254-r dated 1 September 2003 and No. 1367-r dated 25 October 2004. On 1 July 2008 RAO UES ceased to exist and the Company became controlled by the Government (the Russian Federation).

The Group’s primary activities are generation and sale of electricity and capacity on the Russian wholesale and retail markets, as well as generation and sale of heat energy.

Scope of consolidation. As at 31 December 2011 RusHydro Group (hereinafter referred to as “the Group”) consists of the Company and its subsidiaries. The Group’s principal subsidiaries are presented in Note 5. The Group’s associates and jointly controlled entities are presented in Note 9. The Company has 20 branches across the Russian Federation, including: Bureyskaya HPP, Volzhskaya HPP, Votkinskaya HPP, Dagestan branch, Zhigulevskaya HPP, Zagorskaya PSHP, Zeyskaya HPP, Irganayskaya HPP, Kabardino-Balkarian branch, Kamskaya HPP, Karachaevo-Cherkessian branch, Cascade of Verkhnevolzhskie HPPs, Cascade of Kubanskie HPPs, Corporate HydroPower University, Nizhegorodskaya HPP, Novosibirskaya HPP, Saratovskaya HPP, Sayano-Shushenskaya HPP named after P. S. Neporozhny, Northern Ossetian branch, Cheboksarskaya HPP.

Changes in the Group’s structure. Significant changes in the Group’s structure in 2011 and 2010 are described below.

Acquisition of subsidiaries from parties under common control (Note 3)

In 2011, in the course of additional share issue for 89,000,000,000 ordinary shares registered with the Federal Service for Financial Markets of Russia (hereinafter referred to as “the FSFM”) on 16 August 2011 (Note 17) the Group acquired controlling interests in the following companies: OJSC RAO Energy System of East (with the following principal subsidiaries: OJSC DEK, OJSC DGK, OJSC DRSK, OJSC Yakutskenergo, OJSC Kamchatskenergo, OJSC Magadanenergo, OJSC Sakhalinenergo – hereinafter together referred to as “RAO Energy System of East Group”), OJSC Kamchatskiy Gazoenergetichesky Complex, OJSC Pavlodolskaya HPP.

In the Group’s consolidated financial statements these subsidiaries were accounted for using predecessor values method and retrospectively presented in all periods reported, except for OJSC DRSK which was classified as a subsidiary acquired exclusively with a view for resale and accounted for using predecessor values method prospectively from the acquisition date (Note 16).

In addition, in the course of this share issue the Group has increased its interest in the following subsidiaries: OJSC Geotherm, OJSC Kolimaenergo, OJSC Zaramag HS, OJSC Ust’-Srednekanskaya HPP, OJSC Yakutskenergo, OJSC DEK (Notes 5, 17).

On 24 March 2011 the Group acquired a 90 percent interest in CJSC International Power Corporation, the main asset of which is the Sevan-Hrazdan hydroelectric system in the Republic of Armenia, from INTER RAO UES Group. CJSC International Power Corporation has been accounted for using the predecessor values method and retrospectively presented in all periods reported.

Business combinations (Note 5)

On 12 September 2011 the Group acquired a 100 percent interest in LLC ESC Bashkortostan (Energy Supply Company of Bashkortostan) from OJSC Bashkirenergo. The consideration was determined by an independent appraiser and amounted to RR 5,720 million in cash. The transaction was accounted for as a business combination.

On 21 October 2010 the Group acquired a 100 percent interest in OJSC Institute Hydroproject from ESN Group for a cash consideration of RR 1,468 million.

Acquisition of associates (Note 9)

In 2011, in the course of additional share issue for 89,000,000,000 ordinary shares registered with the FSFM on 16 August 2011 (Note 17) the Group acquired significant influence over OJSC Trest Gidromontazh and OJSC Sakhalin Energy Company. As a result, the Group’s investment in OJSC Sakhalin Energy Company in 2011 was reclassified from available-for-sale financial assets to investments in associates (Note 10).

RusHydro Group

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011

(in millions of Russian Rubles unless noted otherwise)

On 5 March 2011 the Group acquired a 25 percent plus 1 share interest in OJSC Bureyagesstroy for cash consideration amounted to RR 200 million from OJSC IDGC Holding.

On 8 December 2010 the Group acquired 24.88 percent of shares of OJSC Krasnoyarskaya HPP from SUEK Group. Later in 2011 the Group acquired additional 0.12 percent of shares of OJSC Krasnoyarskaya HPP. The acquisition was made through an exchange of treasury shares of the Company (Note 17). As a result, the Group's share in Krasnoyarskaya HPP comprised 25.12 percent as at 31 December 2011.

Disposal of subsidiaries (Note 16)

As at 31 December 2010 the Group has classified the following subsidiaries as a disposal group: OJSC Mosenergosbyt with its subsidiaries, OJSC Saint Petersburg Sale Company with its subsidiaries, OJSC Altayenergosbyt, OJSC Tambov Energy Retailing Company, OJSC Saratovenergo, OJSC United Energy Retailing Company (hereinafter together referred to as "Disposal group").

On 28 March 2011 the Group transferred Disposal group together with certain available-for-sale investments classified as held for sale as a contribution to the share capital of OJSC INTER RAO UES (Note 16).

Economic environment in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

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

Relations with the Government and current regulation. As at 31 December 2011 the Russian Federation owned 57.97 percent of the total voting ordinary shares of the Company (31 December 2010: 57.97 percent).

The Group's major customer base includes a large number of entities controlled by, or related to the Government. Furthermore, the Government controls contractors and suppliers, which provide the Group with electricity dispatch, transmission and distribution services, and a number of the Group's fuel and other suppliers (Note 7).

In addition, the Government affects the Group's operations through:

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

To fulfill the assignments of the President of the Russian Federation to replace government officials on Boards of Directors in open joint stock companies with independent or representative directors, on 30 June 2011 the General Shareholders Meeting has approved the new composition of the Board of Directors of the Company.

Economic, social and other policies of the Russian Government could have a material effect on operations of the Group.

Note 2. Operating environment of the Group

Overview of the electricity and capacity market. Capacity and electricity, while interrelated, are treated as separate economic products. The capacity market represents the obligation and ability to keep sufficient generation capability in reserve in order to satisfy a target level of potential demand, while the sale of electricity represents the actual delivery of electricity to the purchaser.

The Russian electricity and capacity market consists of wholesale and retail markets.

Participants of the wholesale market include: generating companies, electricity sales companies, electricity suppliers, grid companies (in terms of electricity purchases to cover transmission losses), electricity export / import operators, large electricity consumers.

RusHydro Group

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011

(in millions of Russian Rubles unless noted otherwise)

Participants of the wholesale market, except grid companies, can act as electricity and capacity sellers and buyers.

Participants of the retail market include: electricity consumers, electricity sales companies, electricity generators that are not eligible for participation in the wholesale market, territorial grid companies.

The Group's entities that are included in Generation segment are primarily participants of the wholesale market selling electricity and capacity to other participants of the market.

The Group's entities that are included in Retailing segment are primarily participants of both the wholesale market, where they purchase electricity and capacity, and the retail market where they sell electricity and capacity to the end-consumers.

The Group's entities relating to the segment RAO Energy System of East Group are the participants of both electricity and capacity wholesale market (non-pricing zone of the Far East) where they sell and purchase electricity and capacity, and retail markets where they sell electricity to end-consumers, including those in the isolated energy systems.

Wholesale market. The wholesale electricity market has been functioning in accordance with the Resolution of the Russian Government No. 1172 dated 27 December 2010.

A wholesale market for electricity and capacity functions on the territory of the regions, which are integrated in pricing areas. European Russia and Urals are included in the first pricing area, Siberia is included in the second pricing area. In non-pricing areas (Arkhangelsk and Kaliningrad regions, Komi Republic, regions of the Far East), where the competitive market relationships are not possible due to technological reasons, sales of electricity and capacity are carried out based on regulated tariffs.

In the isolated energy systems which are not technically integrated into the country's unified energy system, there is no electricity and capacity wholesale market and electricity is supplied through the regulated retail markets.

Wholesale electricity market

The wholesale electricity market has a number of sectors varying in contractual terms, conditions and delivery time frames: sector of regulated contracts, day-ahead market, sector of unregulated bilateral contracts and the balancing market.

Starting from 1 January 2011 regulated contracts are traded only for volumes of electricity and capacity designated for delivery to population, groups of customers equivalent to population and guaranteeing suppliers operating in North Caucasus, Republic of Tyva and Republic of Buryatia.

Electricity and capacity supply tariffs for the Russian Federation are calculated using the price indexing formulas determined by the Federal Tariff Service (hereinafter referred to as "the FTS").

Electricity and capacity supply volumes are determined based on the estimated consolidated balance of electricity production and supply prepared by the FTS, so that for the electricity and capacity generator supply under regulated contracts does not exceed 35 percent of the total electricity and capacity supply to the wholesale market determined by the decision on balance for such generator.

Electricity volumes that are not covered by the regulated contracts are sold at unregulated prices on the day-ahead market (DAM) and balancing market (BM).

DAM is a competitive selection of seller and buyer price bids on the day ahead of actual electricity supply, including prices and volumes for each of 24 hours. The selection is managed by the Commercial Operator of the wholesale market (OJSC ATS). On DAM, the price is determined by balancing the demand and supply, and such price is applied to all market participants. To mitigate the price manipulation risk, DAM introduced a system encouraging the participants to submit competitive price bids – in accordance with the trading rules, the lowest price bids for electricity supply are satisfied first.

Price indices and trade volumes in DAM are published daily on the web-site of OJSC ATS.

Electricity volumes sold under bilateral contracts and on DAM constitute scheduled electricity consumption. However, actual consumption is inevitably different from the planned one. Deviations from scheduled production/consumption are traded on a real-time basis on BM, and the System Operator of the wholesale market (OJSC SO UES) holds additional tenders to select bids every three hours.

Under unregulated bilateral contracts, the market participants independently determine supply counter parties, prices and volumes.

Wholesale capacity market

According to Resolution of the Russian Government No. 89 dated 24 February 2010 amendments to regulations of the capacity market providing for organisation of long-term capacity market were approved.

Capacity is traded based on the following trading mechanisms:

- purchase / sale of capacity under capacity sales contracts, concluded as a result of capacity competitive selection of bids;
- purchase / sale of capacity under unregulated contracts, including concluded through the exchange;
- purchase / sale of capacity under contracts to provide capacity and under sale contracts of new nuclear power plants and hydroelectric power plants, similar to capacity sale contracts;
- purchase / sale of capacity produced by forced generators;
- purchase / sale of capacity under regulated contracts (within the volumes for delivery to population and groups of customers equivalent to population);
- purchase / sale of capacity of generating facilities selected by additional screening of investment projects performed when capacity selected through capacity competitive selection of bids in any area does not guarantee meeting the demand for capacity;
- purchase / sale of capacity of generating facilities determined upon the results of competitive selection of investment projects on developing the prospective technological capacity reserves.

From 2011, similar to trading operations with electricity, capacity is supplied under regulated contracts only in the volumes required for supply to the population, equivalent consumer categories and consumers operating in some parts of the wholesale market pricing zones, consisting Russian constituent territories as determined by the Russian Government (North Caucasus).

In the long-term capacity market, capacity tenders are held based on the demand estimated for the respective supply period by OJSC SO UES. If the actual demand for capacity is above the forecast one, additional tender selection may be held for adjusting it.

The tender first selects capacity commissioned under capacity supply contracts (CSC) entered into with heating generation sites and contracts with nuclear power plants and hydro power plants similar to CSC. Non-selected capacity that failed to pass through the tender is not paid for, excluding the capacity of the generating sites that are required to maintain the technological operating modes of the energy system or supply heat ("forced" generators). The capacity of "forced" generators is paid for using the tariff set up by the FTS.

In December 2010 first capacity sale contracts for new hydroelectric power plants and pump storage power plants were concluded. Heating generation site commissioned under CSC, receives guaranteed payment for capacity for 10 years, to offset the maintenance cost and capital expenditures covered by agreement. Under these contracts such power plants receive guaranteed payment for capacity for 20 years. Maintenance and capital expenditures used to calculate the cost of capacity under capacity supply contracts are determined by Resolution of the Russian Government No. 238 dated 13 April 2010.

Non-pricing zone of the Far East

Territories of the Amur Region, Primorsky Region, Khabarovsk Region, Jewish Autonomous Region and the Southern District of the Sakha Republic (Yakutia) are integrated into a single non-pricing zone of the wholesale electricity and capacity market of the Far East. There are specific features of managing electricity and capacity trading operations due to limitations in the competition among electricity suppliers and grid-imposed limitations for electricity flow.

Tariffs for electricity supplied by the Far East energy companies to the consumer (end-consumer tariffs) are approved by regional regulatory authorities based on the threshold tariff levels approved by the FTS for the regulated period.

The threshold tariff levels for electricity supplied to population or equivalent consumer categories and other consumers in the Russian constituent territories are determined by the FTS in accordance with the forecast of social and economic development in the Russian Federation for the regulated period.

The single buyer wholesale market model is implemented in the Far East non-pricing zone. Suppliers of the wholesale market supply electricity and capacity to the wholesale market using the tariffs established for them by the FTS. The single buyer purchases electricity and capacity on the wholesale market at indicative

prices approved by the FTS. OJSC ATS holds trades and makes sure settlements between the electricity generators and buyers are made using the FTS tariffs approved for these parties.

Functions of the single buyer are assigned to OJSC DEK on the territory of Amur Region, Jewish Autonomous Region, Khabarovsk Region, Primorsky Region and the Sakha Republic (Yakutia).

Retail electricity market. The new retail market rules were introduced by Resolution of the Government No. 530 dated 31 August 2006 "On Approval of the Rules for the Operation of the Retail Electricity Markets" (amended on 31 December 2010). Retail electricity markets represent sales of electricity to the end-consumers outside the scope of the wholesale market. Almost all volumes of electricity sold in the retail markets are purchased in the wholesale market, excluding a small portion generated at the power plants that are not participants in the wholesale market. And there are regions with only retail market operations – they are isolated energy systems of Kamchatsky Region, Magadan Region, Chukotsk Autonomous Region, Western and Central Regions of Sakha Republic (Yakutia) and Sakhalin Region where systems are not technically integrated into the unified energy system.

Electricity sales (supply) companies with the status of guaranteeing suppliers are obliged to enter into an electricity supply contract with any party that applied to them, within their operational zone, which represents a guarantee of electricity supply to any retail market consumer. The guaranteeing suppliers' operational zones cover all territory of Russia and do not overlap. Thus, there is only one guaranteeing supplier for any consumer.

From 2011, the guaranteeing suppliers and other energy sales companies supply electricity to the consumers that are not population or equivalent consumer categories:

- *In the territories integrated into pricing zones of the wholesale market* – at unregulated prices within the threshold limits of unregulated prices. The threshold limits of unregulated prices are determined in accordance with the results of each month based on the actual wholesale market prices.
- *In the territories integrated into non-pricing zones of the wholesale market* – at regulated prices, taking into account deviations from actual consumption volumes from the contractual ones, and the recovery of expenses incurred in connection with the change in contractual consumption volume.
- *In the territories of isolated energy systems* – under regulated prices approved by the FTS and executive authorities of the constituent regions of the Russian Federation in terms of state tariff regulation in the territories where such energy systems are located.

Population and equivalent consumer categories pay for all actually consumed electricity only under the regulated tariffs.

Heating market. Operations of the heating market are regulated by Federal Law No.190-FZ "On Heating" dated 27 July 2010.

The Group's entities that are included into the segment RAO Energy System of the East Group are participants on the retail heating markets in the territories of their presence. Heat energy is supplied both on the centralised basis (from the energy system) and on a decentralised basis (from boiling houses operated by the energy system). And a number of energy systems are involved in supplies of heat, generating and distributing heat energy, while others – just generate heat energy.

Heating market provides for:

- supply of hot water for the heating supply needs;
- supply of hot water for domestic needs;
- supply of heat for the entities' technological needs.

According to the Russian legislation, sales of heat energy are fully regulated.

Prices (tariffs) for heat supplied by utilities for all consumer groups are approved by executive authorities in the Russian constituent regions responsible for state regulation of prices (tariffs).

Prices for other types of heating goods and services are determined by the agreement of the parties and are not subject to regulation.

Seasonality of business. The demand for the Group's heat and electricity generation and supply depends on weather conditions and the season. Electricity generation is made by hydro generation plants as well as by heating generation sites of the Group. Heat generation is mainly made by heating generation site of the Group. In addition to weather conditions, the electricity production by hydro generation plants depends on water flow in the river systems. In spring and in summer (flood period) electricity production by hydro

generation plants is significantly higher than in autumn and in winter. Heat and electricity production by the heat generation assets, to the contrary, is significantly higher in autumn and in winter than in spring and in summer. The seasonal nature of heat and electricity generation has a significant influence on the volume of fuel consumed by heat generation assets and electricity purchased by the Group.

Note 3. Summary of significant accounting policies

Basis of preparation. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") under the historical cost convention, as modified by the revaluation of property, plant and equipment and available-for-sale financial assets. The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Each company of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with Russian standards of accounting (hereinafter referred to as "RSA"). The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications made for the purpose of fair presentation in accordance with IFRS.

Functional and presentation currency. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rubles.

Consolidated financial statements. Subsidiaries are those companies 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 that 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.

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.

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 excludes 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.

RusHydro Group**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011**

(in millions of Russian Rubles unless noted otherwise)

Acquisition of subsidiaries from parties under common control. Acquisitions of subsidiaries from parties under common control are accounted for using the predecessor values method. 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. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity. 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, i.e. retrospectively except for acquisition of subsidiaries acquired exclusively with a view for resale which are accounted for using predecessor values method prospectively from the acquisition date.

The prior period consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity are not the same as those previously presented due to the acquisition of businesses from parties under common control during 2011 that have been accounted for using the predecessor values method and retrospectively presented in all periods reported.

The effects of acquisition of subsidiaries from parties under common control as described in Note 1 were as follows:

| | 31 December 2009 | | 31 December 2010 | |
|--------------------------|--------------------|-------------------|--------------------|-------------------|
| | Before restatement | After restatement | Before restatement | After restatement |
| Total assets | 506,866 | 584,761 | 651,004 | 744,993 |
| Total liabilities | 101,066 | 168,255 | 132,892 | 205,425 |
| Non-controlling interest | 3,894 | 25,552 | 4,584 | 29,579 |

| | Year ended 31 December 2010 | |
|-----------------------|-----------------------------|-------------------|
| | Before restatement | After restatement |
| Revenue | 418,003 | 526,581 |
| Profit for the period | 11,330 | 10,399 |

Investments in associates and jointly controlled entities. 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 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 share of 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.

Jointly controlled entities are joint ventures that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entities operate in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entities.

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

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

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Intangible assets and goodwill. The Group's intangible assets other than goodwill have definite useful lives and primarily include customer base acquired in business combination (Note 5), which is amortised over 5 years, and capitalised computer software. Intangible assets are amortised using the straight-line method over their useful lives. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. 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. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. 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. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

The Group's policy is to measure these instruments at fair value, with resultant gains or losses being reported within the consolidated income statement. Derivatives are not accounted for as hedges.

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 the consolidated income statement.

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. 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 where 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.

The Group uses the revaluation model of property, plant and equipment. Increases in the carrying amount arising on 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 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.

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 on 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 is 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.

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

| Type of facility | Revised average starting from 1 January 2011 | Average used starting from 1 January 2010 |
|----------------------|---|--|
| 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 8).

Investment property. Investment property is property held by the Group to earn rental income which is not occupied by the Group (Note 11). Investment properties are stated at cost. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior

years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

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. Discontinued operations. 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 groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated or amortised. Reclassified non-current 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.

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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 and jointly controlled entities 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 different from the transaction price. In subsequent periods, debt is stated at amortised cost using the effective interest 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 are not carried at fair value and 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 define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of 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 lives.

Share-based payment transactions. The share option programme allows the Group's employees to acquire shares of the Company. The fair value of the options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured based on the Black-Scholes formula.

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 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 the delivery of electricity and heat, provisioning for capacity, supply of non-utility services and on the dispatch of goods during the period. Revenue from retailing operations is recognised on delivery of electricity and heat to the customer. Revenue amounts are presented exclusive of value added tax.

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. 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 placement value 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 shareholders' 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.

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition, and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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 11 and 13.

Impairment of available-for-sale financial assets. In determination under IAS 39 whether an available-for-sale financial asset is impaired, the Group evaluates whether, among other factors, how long and to what extent the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The impairment decision is made on a case by case basis to determine whether a decline in fair value of an available-for-sale financial asset below its cost is significant or prolonged. The effect of this critical accounting estimate is disclosed in Note 10

Carrying value of LLC Energo-finance promissory notes. As at 31 December 2011 the Group holds promissory notes issued by LLC Energo-finance with the carrying value of RR 8,467 million (Note 11). The recoverability of these notes significantly depends on the future trends in the Russian utility stock market.

The Group assessed that the carrying value of these notes represents their recoverable amount. If actual stock market trends differ from current expectations, the notes may not be partly or fully recovered.

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 and impairment of investments in associates.

The effect of these critical accounting estimates and assumptions is disclosed in Notes 8 and 9.

Fair value estimation for acquisitions. In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgment is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets. Management of the Group use all available information to make these fair value determinations and, for certain acquisitions, engage third-party consultants for assistance. The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

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 30.

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 30.

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 tax payer basis.

The effect of these critical accounting estimates and assumptions is disclosed in Note 18.

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.

Recognition of revenue and expenses on free bilateral contracts. Under free bilateral contracts electricity and capacity supply trading is based on unregulated prices negotiated between customers and suppliers. The industry regulations oblige the seller under such contract to sell the equivalent volume on wholesale market and purchase it back from this market, the buyer similarly has to additionally purchase on wholesale market and sell back (additional turnover). Management of the Group has exercised critical judgment in respect of transactions under free bilateral contracts to reflect their economic substance, thus additional turnover in the amount of RR 4,463 million for the year ended 31 December 2011 (for the year ended 31 December 2010: RR 9,339 million) is shown net for presentation purposes.

Non-current assets held for sale and discontinued operation. The resolution of the Russian Government

No. 1174-p dated 07 July 2011 stipulated integration of grid assets of OJSC DRSK into OJSC Federal Grid Company. On 19 December 2011 Management Board of RAO Energy System of East voted for a sale of all shares of OJSC DRSK to OJSC FGC to be considered and approved by Board of Directors of the OJSC RAO Energy System of East and OJSC DEK. As completion of the transaction became highly probable, management of the Group has exercised critical judgment in respect of OJSC DRSK and classified it as a subsidiary acquired exclusively with a view for resale from the date of obtaining control and as at 31 December 2011 (Note 1).

Management of the Group has exercised critical judgment in respect of certain available-for-sale financial assets and Disposal group (Note 1) and reclassified them in accordance with IFRS 5, *Non-current assets held for sale and discontinued operations* due to the fact that the sale was highly probable as at 31 December 2010. Disposal group was disposed of in 2011 (Note 16). Disposal group was included in Retailing segment (Note 6) and due to the fact that management of the Group had plans for further development of the remaining part of the Retailing segment, this part of the Group's business as at 31 December 2010 was accounted for as a disposal group held for sale, not a discontinued operation.

Reclassifications

Certain reclassifications have been made to prior year data to conform to the current year presentation. These reclassifications are not material.

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; effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (i) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and (ii) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted partial exemption of IAS 24 regarding government related entities. The new requirement for government related entities is to disclose only individually significant transactions and transactions that may be collectively significant. Management decided to change presentation of the disclosure in order to meet the objectives of the amendment. New disclosure is intended to put users on notice that related party transactions have occurred and to give an indication of their extent.

Improvements to International Financial Reporting Standards (issued in May 2010; 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 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 early adopted by the Group); 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 Group does not expect the amendments to have any material effect on its 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 4. 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 2012 or later and which the Group has not early adopted:

IFRS 9, Financial Instruments Part 1: 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 only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- 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 as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, early 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). IFRS 10 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.

IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 11 replaces IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12, Disclosure of interest in other entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 12 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 readers of financial statements 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 judgements 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.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). IAS 27 was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated 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.

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.

Amendments to IAS 1, Presentation of financial statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012) change 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 recycled 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.

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 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.

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.

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.

The Group is currently considering the implications of these new accounting pronouncements, their impact on the Group and the timing of their adoption by the Group.

RusHydro Group**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011***(in millions of Russian Rubles unless noted otherwise)***Note 5. Principal subsidiaries**

All subsidiaries with the exception of foreign companies are incorporated and operate in the Russian Federation. The Group operates in the three main reportable segments (Note 6). The principal subsidiaries are presented below according to their allocation to the reportable segments as at 31 December 2011 and 31 December 2010. Differences between the ownership interest and voting interest held by some subsidiaries represent the effect of preference shares and / or effects of indirect ownership, or non-corporate partnership (LLC).

Generation

Generation segment includes the Company and the Group's subsidiaries with production and sale of electricity and capacity:

| | 31 December 2011 | | 31 December 2010 | |
|---|------------------|-------------|------------------|-------------|
| | % of ownership | % of voting | % of ownership | % of voting |
| OJSC EI Verchne-Mutnovsky GeoPP | 92.37% | 95.81% | 86.18% | 95.81% |
| OJSC Geotherm | 92.80% | 92.80% | 79.84% | 79.84% |
| CJSC International Power Corporation* | 90.00% | 90.00% | 90.00% | 90.00% |
| OJSC Kamchatskiy Gazoenergeticheskiy Complex* | 96.58% | 96.58% | 96.58% | 96.58% |
| OJSC Kolimaenergo | 98.76% | 98.76% | 64.27% | 64.27% |
| OJSC Puzhetskaya GeoPP | 92.80% | 100.00% | 79.84% | 100.00% |
| OJSC Pavlodolskaya HPP* | 100.00% | 100.00% | 100.00% | 100.00% |

* Subsidiaries were acquired in 2011 in transactions with parties under common control, accounted for using the predecessor values method and retrospectively presented in all periods reported (Notes 1, 3).

Retailing

Retailing segment includes the Group's subsidiaries – participants of the electricity market where they buy electricity and capacity and resell it to final customers. All the entities included in this segment have the guaranteeing suppliers status (Note 2) and are obliged to sign contracts on supplies with all final consumers of their region upon their request.

| | 31 December 2011 | | 31 December 2010 | |
|---|------------------|-------------|------------------|-------------|
| | % of ownership | % of voting | % of ownership | % of voting |
| OJSC Chuvashskaya energy retail company | 100.00% | 100.00% | 100.00% | 100.00% |
| LLC ESC Bashkortostan* | 100.00% | - | - | - |
| OJSC Krasnoyarskenergosbyt | 65.81% | 69.40% | 65.81% | 69.40% |
| OJSC Ryazan Power Distributing Company | 90.52% | 90.52% | 90.52% | 90.52% |
| OJSC Altayenergosbyt** | - | - | 100.00% | 100.00% |
| OJSC Mosenergosbyt** | - | - | 50.92% | 50.92% |
| OJSC Saint Petersburg Sale Company** | - | - | 61.52% | 67.10% |
| OJSC Saratovenergo** | - | - | 56.23% | 56.97% |
| OJSC Tambov Energy Retailing Company** | - | - | 59.38% | 67.87% |

* Acquired on 12 September 2011 (Note 1).

** Subsidiaries classified as disposal group as at 31 December 2010 and disposed of on 28 March 2011 (Notes 1, 16).

RusHydro Group**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011**

(in millions of Russian Rubles unless noted otherwise)

In 2011 the Group completed independent appraisal of the fair value of the identifiable assets and liabilities of LLC ESC Bashkortostan (Note 1), which is presented below:

| | Date of acquisition |
|---|----------------------------|
| Customer base | 4,075 |
| Property, plant and equipment | 127 |
| Cash and cash equivalents | 522 |
| Accounts receivable and prepayments | 2,216 |
| Other assets | 60 |
| Accounts payable and accruals | (2,526) |
| Deferred tax liabilities | (838) |
| Fair value of identifiable net assets of LLC ESC Bashkortostan | 3,636 |
| Goodwill arising on acquisition | 2,084 |
| Total purchase consideration | 5,720 |
| Less: Cash and cash equivalents of subsidiary acquired | (522) |
| Outflow of cash and cash equivalents on acquisition | 5,198 |

Management of the Group believes that the goodwill arising on acquisition of LLC ESC Bashkortostan represents significant potential synergies.

The acquired subsidiary contributed revenue of RR 12,941 million and profit of RR 247 million to the Group for the period from the date of acquisition to 31 December 2011. If the acquisition had occurred on 1 January 2011, the Group's revenue for 2011 would have increased by RR 41,792 million, and profit for 2011 would have increased by RR 858 million.

RAO Energy System of East Group

RAO Energy System of East Group segment consists of OJSC RAO Energy System of East and its subsidiaries that generate electricity and heat and provide transportation, distribution, construction, repair and other services in the Far East region of the Russian Federation.

Principal subsidiaries of this segment are presented below:

| | 31 December 2011 | | 31 December 2010 | |
|--------------------------------|-------------------------|--------------------|-------------------------|--------------------|
| | % of ownership | % of voting | % of ownership | % of voting |
| OJSC RAO Energy System of East | 69.28% | 69.28% | 69.28% | 69.28% |
| OJSC DEK | 36.39% | 52.07% | 35.35% | 51.03% |
| OJSC DGK | 36.39% | 100.00% | 35.35% | 100.00% |
| OJSC Kamchatskenergo | 68.36% | 98.68% | 68.36% | 98.68% |
| OJSC Magadanenergo | 33.95% | 64.39% | 33.95% | 64.39% |
| OJSC Sakhalinenergo | 38.49% | 55.55% | 38.49% | 55.55% |
| OJSC Yakutskenergo | 62.63% | 84.32% | 32.83% | 47.39% |
| OJSC DRSK* | 36.39% | 100.00% | - | - |

* Subsidiary acquired in 2011 exclusively with a view for resale and classified as a disposal group and discontinued operation as at 31 December 2011 (Note 1).

Subsidiaries of this segment were acquired on 28 October 2011 in transactions with parties under common control. All subsidiaries of this segment were accounted for using predecessor values method (Notes 1, 3).

Other segments

Other segments include:

- the Group's subsidiaries primarily engaged in research and development related to the utilities industry and construction of hydropower facilities;
- the Group's subsidiaries engaged in repair, upgrade and reconstruction of equipment and hydropower facilities;
- the Group's subsidiaries engaged primarily in hydropower plants construction;
- minor segments which do not have similar economic characteristics.

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Principal subsidiaries included in all other segments are presented below:

| | 31 December 2011 | | 31 December 2010 | |
|------------------------------|------------------|-------------|------------------|-------------|
| | % of ownership | % of voting | % of ownership | % of voting |
| OJSC Chirkeigesstroy | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Elektroremont-VKK | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC ESCO UES | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Gidroremont-VKK | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Institute Hydroproject | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Lenhydroproject | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC NIIES | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC SSHGER | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Sulak GidroKaskad | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Turboremont-VKK | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Ust'-Srednekangesstroy | 98.76% | 100.00% | 64.27% | 100.00% |
| OJSC Ust'-Srednekanskaya HPP | 99.34% | 100.00% | 43.69% | 62.79% |
| OJSC VNIIG | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Zagorskaya GAES-2 | 100.00% | 100.00% | 100.00% | 100.00% |
| OJSC Zaramag HS | 98.35% | 98.35% | 95.45% | 95.45% |

Note 6. Segment information

Chief Operating decision maker (CODM) of the Company generally analyses information by the groups of operations which are consolidated in the following separate reportable segments: Generation, Retailing, RAO Energy System of East Group and all other segments (Note 5).

CODM reviews the segment financial information which is prepared in accordance with RSA. Such information differs in certain aspects from IFRS:

- property, plant and equipment are stated at historic cost less accumulated depreciation;
- liabilities for the Group's post-employment obligations are not recognised;
- provisions for impairment of accounts receivable are recognised based on management judgment and availability of information rather than based on the incurred loss model and time value of money concept prescribed in IAS 39;
- investments in subsidiaries are not consolidated, investments in associates and jointly controlled entities are not accounted for using the equity method;
- other intercompany assets and liabilities balances are not eliminated.

CODM believes that EBITDA represents the most useful means of assessing the performance of ongoing operating activities of the Company and the Group's subsidiaries, as it reflects the earnings trends without showing the impact of certain charges.

During 2011 there were significant changes in the Group's structure (Note 1), the changes to the presentation of segment information have been made accordingly.

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Segment information for the years ended 31 December 2011 and 31 December 2010 based on financial information prepared in accordance with RSA is presented below:

| | Generation | Retailing | RAO Energy System of East Group | All other segments | Total Group |
|---|----------------|----------------|---------------------------------------|-----------------------|------------------|
| Year ended 31 December 2011 | | | | | |
| Revenue from external customers | 87,013 | 148,171 | 124,692 | 7,726 | 367,602 |
| Intersegment revenue | 7,993 | 834 | - | 27,106 | 35,933 |
| Total revenue | 95,006 | 149,005 | 124,692 | 34,832 | 403,535 |
| EBITDA (RSA)* | 58,114 | 9,467 | 13,342 | 2,495 | 83,418 |
| Capital expenditure** | 43,136 | 487 | 20,744 | 28,682 | 93,049 |
| As at 31 December 2011 | | | | | |
| Total reportable segment assets | 685,000 | 12,358 | 260,401 | 197,480 | 1,155,239 |
| Total reportable segment liabilities | 131,853 | 8,344 | 100,649 | 161,912 | 402,758 |

Assets of all other segments include assets under construction which will be transferred to the Generation segment on their completion in the amount of RR 106,430 million as at 31 December 2011 (31 December 2010: RR 78,904 million). Liabilities of all other segments consist primarily of intercompany current and non-current debt, accounts payable and accruals.

Included in Retailing segment Revenue and EBITDA (RSA) for the year ended 31 December 2011 are results of Disposal group up to the disposal date.

OJSC DRSK classified as disposal group and discontinued operation is included in RAO Energy System of East Group segment (Notes 3, 16).

| | Generation | Retailing | RAO Energy System of East Group | All other segments | Total Group |
|---|----------------|----------------|---------------------------------------|-----------------------|------------------|
| Year ended 31 December 2010 | | | | | |
| Revenue from external customers | 79,532 | 334,481 | 114,752 | 5,683 | 534,448 |
| Intersegment revenue | 12,398 | 2,326 | - | 19,908 | 34,632 |
| Total revenue | 91,930 | 336,807 | 114,752 | 25,591 | 569,080 |
| EBITDA (RSA)* | 52,322 | 15,379 | 16,148 | 1,784 | 85,633 |
| Capital expenditure** | 36,002 | 1,729 | 12,320 | 25,934 | 75,985 |
| As at 31 December 2010 | | | | | |
| Total reportable segment assets | 577,232 | 45,503 | 250,658 | 185,991 | 1,059,384 |
| Total reportable segment liabilities | 54,361 | 32,026 | 80,093 | 120,362 | 286,842 |

* EBITDA – earnings before interest, tax, depreciation and amortisation, calculated as gross profit under RSA before depreciation.

** Capital expenditure represents additions to property, plant and equipment under RSA, including advances to construction companies and suppliers of property, plant and equipment.

A reconciliation of the reportable segments results to the Consolidated Financial Statements for the years ended 31 December 2011 and 31 December 2010 and as at these dates is presented below:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|--------------------------------|--------------------------------|
| Total revenue of reportable segments (RSA) | 368,703 | 543,489 |
| Revenue of all other segments | 34,832 | 25,591 |
| Differences in revenue recognition under IFRS | (4,461) | (8,591) |
| Elimination of intersegment revenues | (35,933) | (34,632) |
| Other | (542) | 724 |
| Total revenue (IFRS) | 362,599 | 526,581 |

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| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|--------------------------------|--------------------------------|
| EBITDA of reportable segments (RSA) | 80,923 | 83,849 |
| EBITDA of all other segments | 2,495 | 1,784 |
| Finance lease adjustment | 2,046 | 2,028 |
| Charge / (reversal) of accounts receivable | 1,707 | (979) |
| Pension benefit obligation | (535) | (938) |
| Effect of Share Option Programmes (Note 7) | (768) | (783) |
| Reversal of insurance indemnity | - | (1,869) |
| Expenses not included in RSA EBITDA | (12,668) | (8,618) |
| Depreciation of property, plant and equipment (Note 26) | (16,421) | (14,730) |
| Impairment of property, plant and equipment (Note 8) | (6,963) | (25,172) |
| Other | 1,301 | (3,987) |
| Operating profit (IFRS) | 51,116 | 30,585 |

Reportable segments' assets are reconciled to total assets as follows:

| | 31 December 2011 | 31 December 2010 |
|---|------------------|------------------|
| Total reportable segment assets (RSA) | 957,759 | 873,393 |
| Assets of all other segments | 197,480 | 185,991 |
| Property, plant and equipment adjustment | 2,667 | 5,788 |
| Adjustment on investments in associates and jointly controlled entities | 1,689 | 8,995 |
| Finance lease adjustment | 2,564 | 2,139 |
| Deferred tax | (1,845) | (1,628) |
| Unrealised profit adjustment | (4,076) | (2,067) |
| Differences in interest expense capitalisation in RSA and IFRS | (809) | (2,663) |
| Provision for impairment of accounts receivable | (2,266) | (8,298) |
| Treasury shares adjustment | (5,252) | (13,216) |
| Adjustment on fair value of available-for-sale financial assets | 14,544 | (5,109) |
| Discounting of financial instruments | (21,157) | (21,417) |
| Elimination of investments in subsidiaries | (158,093) | (140,606) |
| Elimination of intercompany balances | (168,749) | (132,991) |
| Write-off of prepaid expenses | (759) | (1,022) |
| Other | (1,914) | (2,296) |
| Total assets (IFRS) | 811,783 | 744,993 |

Reportable segments' liabilities are reconciled to total liabilities as follows:

| | 31 December 2011 | 31 December 2010 |
|---|------------------|------------------|
| Total reportable segment liabilities (RSA) | 240,846 | 166,480 |
| Liabilities of all other segments | 161,912 | 120,362 |
| Deferred tax | 40,678 | 41,063 |
| Pension adjustment | 12,093 | 11,097 |
| Finance lease adjustment | 2,968 | 2,722 |
| Discounting of financial instruments | (2,231) | (2,759) |
| Elimination of intercompany balances | (168,749) | (132,991) |
| Other | (1,393) | (549) |
| Total liabilities (IFRS) | 286,124 | 205,425 |

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Information for revenue from external customers in accordance with IFRS for the years ended 31 December 2011 and 31 December 2010 is presented below:

| | Generation | Retailing | RAO Energy System of East Group | All other segments | Total Group |
|------------------------------------|---------------|----------------|---------------------------------------|-----------------------|----------------|
| Year ended 31 December 2011 | | | | | |
| Sales of electricity | 50,764 | 146,332 | 83,080 | - | 280,176 |
| Sales of capacity | 31,433 | 268 | 1,018 | - | 32,719 |
| Sales of heat | 129 | - | 27,327 | - | 27,456 |
| Other revenue | 293 | 1,502 | 12,974 | 7,479 | 22,248 |
| Total revenue | 82,619 | 148,102 | 124,399 | 7,479 | 362,599 |
| Year ended 31 December 2010 | | | | | |
| Sales of electricity | 33,684 | 328,855 | 78,043 | 69 | 440,651 |
| Sales of capacity | 40,550 | 149 | 1,191 | - | 41,890 |
| Sales of heat | 130 | - | 21,963 | 12 | 22,105 |
| Other revenue | 356 | 2,005 | 14,071 | 5,503 | 21,935 |
| Total revenue | 74,720 | 331,009 | 115,268 | 5,584 | 526,581 |

Note 7. 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, as described by IAS 24, *Related Parties Disclosure*. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Group's principal related parties for the year ended 31 December 2011 were jointly controlled entities, associates (Note 9) of the Group and government-related entities.

Jointly controlled entities

The Group had the following balances with its jointly controlled entities:

| | Note | 31 December 2011 | 31 December 2010 |
|-------------------|------|------------------|------------------|
| Promissory notes | 11 | 5,271 | 4,737 |
| Advances received | | 245 | 341 |

The Group had the following transactions with its jointly controlled entities:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---------------|--------------------------------|--------------------------------|
| Other revenue | 1,049 | 275 |

Associates

The Group had the following balances with its associates:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|-----------------------------|--------------------------------|--------------------------------|
| Trade and other receivables | 683 | 10 |
| Accounts payable | 214 | - |

The Group had the following transactions with its associates:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|------------------------------------|--------------------------------|--------------------------------|
| Purchased electricity and capacity | 297 | 69 |

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: SC Vnesheconombank, OJSC Sberbank of Russia, OJSC VTB Bank, CJSC VTB24, OJSC Gazprombank, OJSC Rosselkhozbank, OJSC Transcreditbank (Notes 11, 12, 15, 20). All transactions are carried out on market rates.

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The Group sells electricity, capacity and heat to government-related entities. Determination of prices for such electricity, capacity and heat sales is based on electricity and capacity market rules (Note 2). The Group's sales to government-related entities comprised approximately 21 percent of total sales for the year ended 31 December 2011 (for the year ended 31 December 2010: approximately 26 percent). The Group's purchases of electricity, capacity and fuel from government-related entities comprised approximately 22 percent of total expenses on purchased electricity, capacity and fuel for the year ended 31 December 2011 (for the year ended 31 December 2010: approximately 37 percent).

Some of the transactions on wholesale electricity and capacity market are conducted through commission agreements with CJSC Centre of Financial Settlements (hereinafter referred to as "CFS"). The current financial settlement system of CFS does not provide the final counterparty with automated information about transactions with end consumers. Government-related entities may also act as counterparties.

The Group had the following significant transactions with CFS:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|------------------------------------|--------------------------------|--------------------------------|
| Sales of electricity and capacity | 52,102 | 38,122 |
| Purchased electricity and capacity | 52,321 | 97,513 |

Electricity distribution services provided to the Group by government-related entities comprised approximately 69 percent of total electricity distribution expenses for the year ended 31 December 2011 (for the year ended 31 December 2010: approximately 87 percent). The distribution of electricity is subject to tariff regulations.

Key management of the Group. Following acquisition of subsidiaries under common control in October 2011 (Note 1) which are accounted for using predecessor values method retrospectively, key management personnel in addition to the members of the Board of Directors of the Company and members of the Management Board of the Company now includes key management of RAO Energy System of East Group. In addition, starting from October 2011 heads of the business subdivisions are also considered as the key management of the Group.

Remuneration to the members of the Board of Directors of the Company for their services in their capacity and for attending Board meetings is paid depending on the results for the year and is calculated based on specific remuneration policy approved by the Annual General Shareholders Meeting of the Company.

Remuneration to the members of the Management Board and to other key management of the Group is paid for their services in full time management positions and is made up of a contractual salary and performance bonuses depending on the results of the work for the period based on key performance indicators approved by the Board of Directors of the Company.

Total remuneration paid to the key management of the Group for the year ended 31 December 2011 comprised RR 1,727 million (for the year ended 31 December 2010: RR 628 million).

Employee's Share Option Programme 2007. In May 2007 the Company's Board of Directors approved the first Share Option Programme of the Company (hereinafter referred to as the "Programme 2007"), according to which members of the Management Board and other key employees of the Group became its participants.

The Programme 2007 was operated by the Group's subsidiary LLC ESOP which keeps 3,137,287,475 treasury shares of the Company.

In accordance with the regulations of the Programme 2007, its participants signed agreements to purchase the Company's shares under which the property title to the shares was transferred and payment was to be made after three years, starting from 3 September 2007. On 11 February 2010 the Company's Board of Directors approved amendments to the regulation of the Programme 2007, which extended the period during which the participants can exercise their options up to two years after 2 September 2010. Previously the Programme 2007 participants could exercise the share option within the month ended 2 September 2010.

The extension of the options execution period affected the fair value of the options granted. On 11 February 2010 the Group has determined (i) the fair value of options using existing terms and conditions, and (ii) the fair value of the options with the extended exercise period. The difference between the two fair values at the date of amendments was an incremental employee benefit. The incremental employee benefit was expensed over the period from 11 February 2010 to the vesting date in September 2010. The original grant date fair value continued to be amortised, using the original graded vesting schedule, over the period from the original 3 September 2007 grant date to the vesting date in September 2010.

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The estimate of the fair value of the services received was measured based on the Black-Scholes model:

| | Original value calculated as at 3 September 2007 | Before modification measured as at the date of amendments | After modification measured as at the date of amendments |
|---|--|---|--|
| Share price (in RR) | 1.73 | 1.19 | 1.19 |
| Exercise price (in RR) | 1.73 | 1.73 | 1.73 |
| Expected volatility (%) | 27.00 | 60.37 | 60.37 |
| Option life (days) | 1,096 | 203 | 934 |
| Risk-free interest rate (%) | 6.13 | 5.55 | 6.08 |
| Fair value of the option at measurement date (in RR) | 0.456 | 0.080 | 0.360 |

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

| | All options granted under the Programme 2007 | Attributed to members of the Management Board |
|---|---|--|
| Number of options as at 1 January 2010 | 2,692,180,984 | 180,394,029 |
| Option agreements signed in 2010 | 332,522 | - |
| Reclassification out of Management Board category | - | (7,843,219) |
| Options forfeited in 2010 | (109,461,694) | - |
| Number of options as at 1 January 2011 | 2,583,051,812 | 172,550,810 |
| Option agreements signed during the year 2011 | 362,579 | - |
| Number of options outstanding as at 31 December 2011 | 2,583,414,391 | 172,550,810 |

For the year ended 31 December 2011 no material expense related to the fair value of the options under the Programme 2007 was recognised within employee benefit expenses (for the year ended 31 December 2010: RR 723 million).

Employee's Share Option Programme 2010. On 22 December 2010 the Group approved the conditions of the second Share Option Programme (hereinafter referred to as the "Programme 2010"). A total of up to 3,178,775,724 ordinary shares are planned to be allocated under the Programme 2010. 65 percent of the total number of shares under the Programme 2010 were granted to the Management Board on 22 December 2010.

In accordance with the regulations of the Programme 2010, its participants signed agreements to purchase the Company's shares under which the property title to the shares was transferred and payment was to be made after two years, starting from 22 December 2010. The participants can exercise their options within two months after 21 December 2012.

The operator of the Programme 2010 is the Group's subsidiary OJSC HydroInvest.

The estimate of the fair value of the services received was measured based on the Black-Scholes model:

| | Value calculated as at 22 December 2010 |
|---|--|
| Share price (in RR) | 1.66 |
| Exercise price (in RR) | 1.4967 |
| Expected volatility (%) | 32.74 |
| Option life (days) | 731 |
| Risk-free interest rate (%) | 6.17 |
| Fair value of the option at measurement date (in RR) | 0.470 |

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

| | All options granted under the Programme 2010 | Attributed to members of the Management Board |
|---|---|--|
| Number of options as at 1 January 2011 | - | - |
| Option agreements signed during the year 2011 | 2,066,204,221 | 2,066,204,221 |
| Number of options outstanding as at 31 December 2011 | 2,066,204,221 | 2,066,204,221 |

For the year ended 31 December 2011 the Group recognised an expense of RR 768 million within employee benefit expenses related to the fair value of the options under the Programme 2010.

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Note 8. Property, plant and equipment

| Cost | Buildings | Facilities | Plant and equipment | Assets under construction | Other | Total |
|--|------------------|-------------------|----------------------------|----------------------------------|----------------|------------------|
| Opening balance as at 31 December 2010 | 69,750 | 319,447 | 106,837 | 146,056 | 9,045 | 651,135 |
| Revaluation write-down due to impairment | (4,688) | (5,756) | (3,642) | - | (38) | (14,124) |
| Additions | 419 | 773 | 1,889 | 85,354 | 2,612 | 91,047 |
| Transfers | 2,146 | 30,016 | 16,932 | (49,463) | 369 | - |
| Disposals and write-offs | (173) | (1,985) | (860) | (1,609) | (413) | (5,040) |
| Closing balance as at 31 December 2011 | 67,454 | 342,495 | 121,156 | 180,338 | 11,575 | 723,018 |
| Accumulated depreciation (including impairment) | | | | | | |
| Opening balance as at 31 December 2010 | (14,312) | (47,711) | (25,241) | (42,570) | (2,825) | (132,659) |
| Charge of impairment | (2,666) | (6,547) | (5,199) | (11,766) | (285) | (26,463) |
| Reversal of impairment | 1,487 | 12,441 | 4,508 | 1,041 | 23 | 19,500 |
| Charge for the period | (1,773) | (5,940) | (8,295) | - | (940) | (16,948) |
| Transfers | (434) | (5,561) | (1,614) | 7,620 | (11) | - |
| Disposals and write-offs | 107 | 760 | 515 | 607 | 192 | 2,181 |
| Closing balance as at 31 December 2011 | (17,591) | (52,558) | (35,326) | (45,068) | (3,846) | (154,389) |
| Net book value as at 31 December 2011 | 49,863 | 289,937 | 85,830 | 135,270 | 7,729 | 568,629 |
| Net book value as at 31 December 2010 | 55,438 | 271,736 | 81,596 | 103,486 | 6,220 | 518,476 |

| Cost | Buildings | Facilities | Plant and equipment | Assets under construction | Other | Total |
|--|------------------|-------------------|----------------------------|----------------------------------|----------------|------------------|
| Opening balance as at 31 December 2009 | 61,978 | 228,063 | 114,986 | 110,223 | 8,567 | 523,817 |
| Revaluation reserve (net) | 10,998 | 90,461 | (849) | - | 902 | 101,512 |
| Additions | 130 | 281 | 1,448 | 66,459 | 1,231 | 69,549 |
| Transfers | 2,978 | 13,678 | 11,077 | (28,311) | 578 | - |
| Disposals and write-offs | (1,092) | (4,079) | (1,679) | (1,640) | (363) | (8,853) |
| Elimination of accumulated depreciation | (1,824) | (8,935) | (16,098) | - | (1,128) | (27,985) |
| Reclassification of assets held for sale | (3,418) | (22) | (2,048) | (675) | (742) | (6,905) |
| Closing balance as at 31 December 2010 | 69,750 | 319,447 | 106,837 | 146,056 | 9,045 | 651,135 |
| Accumulated depreciation (including impairment) | | | | | | |
| Opening balance as at 31 December 2009 | (14,300) | (42,966) | (23,955) | (40,374) | (2,752) | (124,347) |
| Charge of impairment | (6,017) | (12,555) | (11,305) | (12,078) | (979) | (42,934) |
| Reversal of impairment | 5,036 | 6,085 | 3,074 | 3,416 | 151 | 17,762 |
| Charge for the period | (1,381) | (4,494) | (8,345) | - | (777) | (14,997) |
| Transfers | (395) | (3,869) | (1,957) | 6,233 | (12) | - |
| Disposals and write-offs | 664 | 1,149 | 489 | 233 | 192 | 2,727 |
| Elimination of accumulated depreciation | 1,824 | 8,935 | 16,098 | - | 1,128 | 27,985 |
| Reclassification of assets held for sale | 257 | 4 | 660 | - | 224 | 1,145 |
| Closing balance as at 31 December 2010 | (14,312) | (47,711) | (25,241) | (42,570) | (2,825) | (132,659) |
| Net book value as at 31 December 2010 | 55,438 | 271,736 | 81,596 | 103,486 | 6,220 | 518,476 |
| Net book value as at 31 December 2009 | 47,678 | 185,097 | 91,031 | 69,849 | 5,815 | 399,470 |

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Assets under construction represent the carrying amount of property, plant and equipment that has not yet been put into operation, including hydropower plants under construction, and advances to construction companies and suppliers of property, plant and equipment. As at 31 December 2011 such advances amounted to RR 41,930 million (31 December 2010: RR 27,159 million).

Additions to assets under construction included capitalised borrowing costs in the amount of RR 2,993 million, the capitalisation rate was 6.69 percent (for the year ended 31 December 2010: RR 252 million, the capitalisation rate was 7.26 percent).

Additions to assets under construction included capitalised depreciation in the amount of RR 527 million (for the year ended 31 December 2010: RR 267 million).

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

Impairment as at 31 December 2011 and 31 December 2010. Management of the Company analysed the current economic situation and indicators of property, plant and equipment as at 31 December 2011 and 31 December 2010 and estimated the necessity of calculation of the recoverable amount of assets. For the purpose of calculation of the recoverable amount of property, plant and equipment value in use was determined based on future cash flows. The Company's branches and the Group's subsidiaries were considered to be separate cash-generating units.

The following key assumptions were used when the cash flow testing was performed for the years ended 31 December 2011 and 31 December 2010:

| Key assumptions used in the cash flow testing | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|--|--|
| Information used | Actual operating results for the year and business plans for 2012-2016 | Actual operating results for the year and business plans for 2011-2015 |
| Forecast period* | 10 years (2012-2021) | 10 years (2011-2020) |
| Forecasted growth rates | 2.8 percent | 2.6 percent |
| Discount rate (weighted average cost of capital) (WACC) | 12.7 – 14.0 percent | 11.5 – 14.5 percent |
| Forecast of electricity and capacity tariffs in the isolated energy systems and in non-pricing zone of the Far East | Based on methodology of tariffs calculation adopted by regulatory authority | |
| Forecast of electricity and capacity prices in competitive market | Based on the forecast prepared by reputable independent company CJSC Energy Forecasting Agency | |
| Forecast of capacity prices related to competitive capacity selection | For 2012 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2013-2021 – adjusted on consumer index price | For 2011 – based on the results of competitive capacity selection, except for stations, where regulated tariffs are used For 2012-2020 – adjusted on consumer index price - |
| Forecast of electricity and capacity volumes | Based on the Company's management assessment of future trends in the business | |
| Forecast of capital expenditures | Based on the management valuation of capital expenditures on modernisation and reconstruction programme | Based on the management valuation of capital expenditures on modernisation and reconstruction programme |
| | | - Taking into account investment uplift in tariff in the amount of investment required to finance capital expenditure approved for 2011 |

* Management considers that a forecast period greater than five years is appropriate as the wholesale electricity and capacity market is expected to change significantly over the forecast period and cash flow projections will be not stabilised within five years. However a forecast period of cash flows was defined by remaining useful life of assets tested. For hydroelectric power plants this period exceeds 100 years due to the fact that key asset is a dam. In this regard the recoverable amount of assets was defined based on cash flows during the forecast period and terminal values.

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The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

Due to the deterioration in expectations as regards the achievable sales prices and volumes in the new market conditions, for a number of cash-generating units (mainly located in the Far East region) net book value of property, plant and equipment as at 31 December 2011 decreased for the total amount of RR 21,087 million. As a result, impairment loss in the amount of RR 6,963 million was recognised in consolidated income statement and decrease of previous revaluation reserve in the amount of RR 14,124 million – in other comprehensive loss. As at 31 December 2010 impairment loss in the amount of RR 25,172 million was recognised in consolidated income statement

However, the calculation of the recoverable amounts of cash-generating units is highly sensitive to the level of future electricity and capacity prices, forecasted weighted average cost of capital (WACC) and forecasted volumes of capital expenditures.

If the electricity and capacity prices were 10 percent lower in the forecasted period, there would be a decrease in net book value of property, plant and equipment in amount of RR 80,991 million.

If the discount rate (WACC) was 1 percent higher in the forecasted period, there would be a decrease in net book value of property, plant and equipment in amount of RR 39,420 million.

If the volumes of capital expenditures prices were 10 percent higher in the forecasted period, there would be a decrease in net book value of property, plant and equipment in amount of RR 21,564 million.

Revaluation as at 31 December 2010. As at 31 December 2010 the Group performed a revaluation of property, plant and equipment. The revaluation was performed by an independent appraiser.

As a result of the revaluation undertaken as at 31 December 2010, 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.

Where the recoverable value was lower than the carrying value of the property, plant and equipment after the revaluation performed as at 31 December 2010, but above the historic carrying value excluding the effect of past revaluations, the reduction in the carrying value was taken directly to equity and shown as a reduction in the revaluation surplus.

As a result of the revaluation the Group's equity increased by RR 81,210 million as at 31 December 2010, comprising an increase in the carrying value of property, plant and equipment of RR 101,512 million, net of a related deferred tax liability of RR 20,302 million.

The net increase in the carrying value of property, plant and equipment of RR 101,512 million resulted from increase in the revaluation reserve on property, plant and equipment of RR 159,143 million and the reversal of a previously recognised revaluation reserve of RR 57,631 million.

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:

| | Production buildings | Facilities | Plant and equipment | Assets under construction | Other | Total |
|---------------------------------------|----------------------|------------|---------------------|---------------------------|-------|---------|
| Net book value as at 31 December 2011 | 25,191 | 123,635 | 65,713 | 139,250 | 5,763 | 359,552 |
| Net book value as at 31 December 2010 | 25,294 | 97,561 | 54,361 | 107,466 | 5,432 | 290,114 |

Leased equipment. The Group leases equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. As at 31 December 2011 the net book value of leased property, plant and equipment was RR 6,139 million (31 December 2010: RR 5,426 million). The leased equipment is pledged as a security for the lease obligation.

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 land areas leased by the Group are the territories on which the Group's hydropower plants

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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 operating 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.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 31 December 2011 | 31 December 2010 |
|----------------------------|------------------|------------------|
| Less than one year | 2,065 | 1,154 |
| Between one and five years | 5,726 | 3,029 |
| After five years | 31,692 | 24,803 |
| Total | 39,483 | 28,986 |

Note 9. Investments in associates and jointly controlled entities

The tables below summarise the movements in the carrying value of the Group's interests in associates and jointly controlled entities, acquisition of associates are described in Note 1:

| | Carrying value as at 31 December 2010 | Acquisition and additional contribution | and Reclassification (Note 10) | Share of profit / (loss) | Charged directly to other comprehensive income | Carrying value as at 31 December 2011 |
|--|---------------------------------------|---|--------------------------------|--------------------------|--|---------------------------------------|
| Associates | | | | | | |
| OJSC Krasnoyarskaya HPP | 21,334 | 98 | - | 614 | - | 22,046 |
| OJSC Sakhalin Energy Company | - | 917 | 600 | 316 | - | 1,833 |
| OJSC Trest Gidromontazh | - | 998 | - | 14 | - | 1,012 |
| OJSC Bureyagesstroy | - | 333 | - | (15) | - | 318 |
| Other | 131 | 57 | 65 | (30) | 24 | 247 |
| Jointly controlled entities | | | | | | |
| BoGES Group* | 13,617 | - | - | (5,249) | (218) | 8,150 |
| BALP Group* | 1,960 | - | - | (1,960) | - | - |
| Other | 86 | - | - | (8) | 2 | 80 |
| Total investments in associates and jointly controlled entities | 37,128 | 2,403 | 665 | (6,318) | (192) | 33,686 |

| | Carrying value as at 31 December 2009 | Acquisition and additional contribution | and Reclassification | Share of profit / (loss) | Charged directly to other comprehensive income | Carrying value as at 31 December 2010 |
|--|---------------------------------------|---|----------------------|--------------------------|--|---------------------------------------|
| Associates | | | | | | |
| OJSC Krasnoyarskaya HPP | - | 21,207 | 99 | 28 | - | 21,334 |
| OJSC WGC-1 | 11,737 | - | (11,737) | - | - | - |
| Other | 234 | - | - | (103) | - | 131 |
| Jointly controlled entities | | | | | | |
| BoGES Group* | 6,450 | - | - | 6,702 | 465 | 13,617 |
| BALP Group* | - | 1,151 | - | 809 | - | 1,960 |
| Other | 87 | - | - | - | (1) | 86 |
| Total investments in associates and jointly controlled entities | 18,508 | 22,358 | (11,638) | 7,436 | 464 | 37,128 |

* BoGES Group consists of BoGES Ltd and OJSC Boguchanskaya HPP. BALP Group consists of BALP Ltd and CJSC Boguchansky Aluminium Plant.

In 2010 the Group's investment in OJSC WGC-1 was diluted to 15.48 percent following the share issue of OJSC WGC-1 in favour of OJSC INTER RAO UES. As a result, investment in OJSC WGC-1 was reclassified to available-for-sale financial assets and subsequently to available-for-sale financial assets classified as held for sale as at 31 December 2010. In 2011 investment in OJSC WGC-1 was transferred as a contribution to the share capital of OJSC INTER RAO UES (Note 16).

The Group's share of BoGES Group's and BALP Group's losses for the years ended 31 December 2011 and 31 December 2010 are primarily attributed to the impairment of property, plant and equipment.

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Due to the fact that the Group's share of losses of BALP Group for the year ended 31 December 2011 exceeded the Group's interest in it, the Group did not recognise further losses and the carrying value of investment in BALP Group as at 31 December is nil. The cumulative unrecognised share of losses of BALP Group as at 31 December 2011 is RR 1,865 million.

The Group's share of the results, aggregated assets and liabilities of its associates and jointly controlled entities are as follows:

| 31 December 2011 | % held | Assets | Liabilities | Share of profit / (loss) | Elimination of loss on discounting | Resulting profit / (loss) |
|------------------------------------|----------|----------------|-----------------|--------------------------|------------------------------------|---------------------------|
| Associates | | | | | | |
| OJSC Krasnoyarskaya HPP* | 25.12% | 61,321 | (7,870) | 614 | - | 614 |
| OJSC Sakhalin Energy Company | 35.04% | 7,459 | (2,228) | 316 | - | 316 |
| OJSC Trest Gidromontazh** | 33.54% | 7,030 | (4,013) | 14 | - | 14 |
| | 25.00% + | | | | | |
| OJSC Bureyagesstroy | 1 share | 6,477 | (5,204) | (15) | - | (15) |
| Other | | 1,220 | (795) | (30) | - | (30) |
| Jointly controlled entities | | | | | | |
| BoGES Group | 50.00% | 43,391 | (27,091) | (5,249) | 342 | (4,907) |
| BALP Group | 50.00% | 5,491 | (9,220) | (1,960) | 31 | (1,929) |
| Other | | 247 | (18) | (8) | - | (8) |
| Total | | 132,636 | (56,439) | (6,318) | 373 | (5,945) |
| 31 December 2010 | % held | Assets | Liabilities | Share of profit / (loss) | Elimination of loss on discounting | Resulting profit / (loss) |
| Associates | | | | | | |
| | 25.00% - | | | | | |
| OJSC Krasnoyarskaya HPP* | 1 share | 58,409 | (7,549) | 28 | - | 28 |
| Other | | 1,086 | (625) | (103) | - | (103) |
| Jointly controlled entities | | | | | | |
| BoGES Group | 50.00% | 44,616 | (17,382) | 6,702 | (13,790) | (7,088) |
| BALP Group | 50.00% | 7,805 | (3,885) | 809 | (2,706) | (1,897) |
| Other | | 245 | (5) | - | - | - |
| Total | | 112,161 | (29,446) | 7,436 | (16,496) | (9,060) |

* As at 31 December 2010 provisional recognised values of OJSC Krasnoyarskaya HPP; assets mainly consist of property, plant and equipment. In 2011 the Group completed independent appraisal of the fair value of identifiable assets and liabilities of OJSC Krasnoyarskaya HPP. Goodwill on acquisition of associate comprised RR 8,619 million.

** Provisional recognised values of OJSC Trest Gidromontazh; assets mainly consist of property, plant and equipment, accounts receivable, inventory.

Note 10. Available-for-sale financial assets

| | 31 December 2011 | | 31 December 2010 | |
|--|------------------|---------------|------------------|--------------|
| | % of ownership | Fair value | % of ownership | Fair value |
| OJSC INTER RAO UES | 5.28% | 17,755 | 0.64% | 894 |
| OJSC IDGC Holding | 1.03% | 972 | 1.03% | 2,298 |
| OJSC Boguchanskaya HPP | 2.89% | 379 | - | - |
| OJSC FGC UES | 0.13% | 466 | 0.13% | 612 |
| OJSC Sakhalin Energy Company | - | - | 10.17% | 600 |
| Other | - | 166 | - | 239 |
| Total available-for-sale financial assets | | 19,738 | | 4,643 |

In 2011 the Group acquired interest in OJSC Boguchanskaya HPP (Note 1) and additional interest in OJSC INTER RAO UES (Note 16).

Investment in OJSC Sakhalin Energy Company was reclassified to investments in associates due to acquisition of additional interest in 2011 (Note 1).

The fair values of available-for-sale financial assets were calculated based on quoted market prices, for those which are not publicly traded fair values were estimated by reference to the discounted cash flows of the investees.

Loss arising on available-for-sale financial assets for the year ended 31 December 2011 totaled RR 5,070 million, net of tax and was recorded within other comprehensive income (for the year ended

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31 December 2010: gain of RR 2,380 million, net of tax).

Note 11. Other non-current assets

| | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| Long-term promissory notes (Net of discount of RR 20,751 million, effective interest rate: 9.75-13.00%, due 2013-2029 as at 31 December 2011 and RR 21,048 million, effective interest rate: 9.75-13.50%, due 2012-2029 as at 31 December 2010) | 15,034 | 13,121 |
| VAT recoverable | 4,320 | 2,745 |
| Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs (Note 17) | 5,762 | - |
| Customer base of LLC ESC Bashkortostan (Note 5) | 4,075 | - |
| Goodwill | 3,018 | 930 |
| Other non-current assets | 3,927 | 3,223 |
| Total other non-current assets | 36,136 | 20,019 |

| | Rating | Rating agency | Effective interest rate | Maturity date | 31 December 2011 | 31 December 2010 |
|---|--------|-------------------|-------------------------|---------------|------------------|------------------|
| Long-term promissory notes | | | | | | |
| LLC Energo-finance | - | - | 10.50% | 2014 | 8,467 | 7,660 |
| OJSC Boguchanskaya HPP | - | - | 9.75% | 2029 | 3,935 | 3,585 |
| CJSC Boguchansky Aluminium Plant | - | - | 10.00% | 2024 | 1,336 | 1,152 |
| OJSC SO UES | - | - | 10.20% | 2013 | 629 | - |
| OJSC Alfa Bank | BB | Standard & Poor's | 10.00-11.00% | 2015 | 387 | 420 |
| Other | | | | | 280 | 304 |
| Total long-term promissory notes | | | | | 15,034 | 13,121 |

As at 31 December 2011 the promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant were recognised at their amortised cost net of discounts of RR 17,092 million and RR 3,280 million respectively (31 December 2010: RR 17,442 million and RR 3,228 million respectively). In 2011 these promissory notes were pledged as collateral to the State Corporation Vnesheconombank (Note 30).

Interest-bearing promissory notes of LLC Energo-finance (Note 3), secured with a guarantee from Rusenergo Fund Limited, with a 13 percent annual interest rate payable on demand, but not earlier than 12 December 2014, were recognised as at 31 December 2011 at amortised cost of RR 8,467 million (31 December 2010: RR 7,660 million), including accrued interest.

Dams of Bratskaya, Ust'-Ilimskaya and Irkutskaya HPPs were received in 2011 in the course of additional share issue (Note 17). They are currently being rented out to OJSC Irkutskenergo on the terms of long-term operating lease. Management of the Group estimated the recoverable amount of these dams by determining value in use based on future cash flows. Key assumption used for the cash flows analysis is the ability of the Group to renegotiate rental payments. As a result, no impairment of the dams was recognised as at 31 December 2011.

Note 12. Cash and cash equivalents

| | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| Cash at bank | 10,321 | 12,190 |
| Cash equivalents (contractual interest rate: 2.50-8.55%) | 36,998 | 10,358 |
| Cash in hand | 18 | 21 |
| Total cash and cash equivalents | 47,337 | 22,569 |

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.

Cash and cash equivalents balances denominated in US Dollars as at 31 December 2011 were RR 109 million (31 December 2010: RR 84 million). Cash and cash equivalents balances denominated in Euros as at 31 December 2011 were RR 708 million (31 December 2010: RR 872 million).

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Cash and cash equivalents are deposited in several institutions as follows:

| | Rating | Rating agency | 31 December 2011 | 31 December 2010 |
|-------------------------------|--------|-------------------|------------------|------------------|
| Bank deposits | | | | |
| OJSC VTB Bank | BBB | Fitch Ratings | 14,797 | 270 |
| OJSC Gazprombank | BB+ | Standard & Poor's | 10,417 | 3,489 |
| OJSC Sberbank of Russia | Baa1 | Moody's | 4,248 | 918 |
| OJSC Nordea Bank | BBB+ | Fitch Ratings | 3,460 | - |
| OJSC URALSIB | BB- | Fitch Ratings | 1,398 | - |
| OJSC Alfa-Bank | BB | Standard & Poor's | 640 | 209 |
| OJSC Asian-Pacific Bank | Baa1 | Moody's | 308 | 158 |
| CJSC Peresvet Bank | - | - | 283 | 2,701 |
| OJSC Promsvyazbank | Ba2 | Moody's | 250 | - |
| OJSC NOMOS-BANK | BB | Fitch Ratings | - | 2,210 |
| Other | | | 1,197 | 403 |
| Total cash equivalents | | | 36,998 | 10,358 |
| Cash at banks | | | | |
| OJSC Gazprombank | BB+ | Standard & Poor's | 3,225 | 4,956 |
| OJSC Sberbank of Russia | Baa1 | Moody's | 1,743 | 1,459 |
| CJSC Peresvet Bank | - | - | 1,016 | 68 |
| LLC Creditinvest | - | - | 720 | 537 |
| CJSC Raiffeisenbank | BBB+ | Fitch Ratings | 683 | 893 |
| OJSC Alfa-Bank | BB | Standard & Poor's | 454 | 524 |
| OJSC ROSBANK | BBB+ | Fitch Ratings | 319 | 965 |
| CJSC VTB24 | BBB | Fitch Ratings | 255 | 33 |
| OJSC Bank Vozrozhdenie | BB- | Standard & Poor's | 216 | 241 |
| OJSC VTB Bank | BBB | Fitch Ratings | 111 | 466 |
| Other | | | 1,579 | 2,048 |
| Total cash at banks | | | 10,321 | 12,190 |

Note 13. Accounts receivable and prepayments

| | 31 December 2011 | 31 December 2010 |
|---|------------------|------------------|
| Trade receivables | 26,603 | 20,507 |
| (Net of provision for impairment of accounts receivable of RR 7,380 million as at 31 December 2011 and RR 8,287 million as at 31 December 2010) | | |
| VAT recoverable | 10,984 | 10,945 |
| Income tax receivable | 3,718 | 3,043 |
| Advances to suppliers and other prepayments | 4,432 | 3,097 |
| (Net of provision for impairment of accounts receivable of RR 277 million as at 31 December 2011 and RR 378 million as at 31 December 2010) | | |
| Other receivables | 4,134 | 4,370 |
| (Net of provision for impairment of accounts receivable of RR 2,038 million as at 31 December 2011 and RR 1,272 million as at 31 December 2010) | | |
| Total accounts receivable | 49,871 | 41,962 |

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.

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Movements in the impairment provision for accounts receivables and prepayments are as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|--|--------------------------------|--------------------------------|
| As at 1 January | 9,937 | 14,015 |
| Charge for the year | 4,068 | 8,170 |
| Reversal of impairment | (3,205) | (5,962) |
| Trade receivables written-off as uncollectible | (1,105) | (2,204) |
| Reclassification to assets of Disposal group (Note 16) | - | (4,082) |
| As at 31 December | 9,695 | 9,937 |

The ageing analysis of trade and other accounts receivable is as follows:

| | 31 December 2011 | Provision as at 31 December 2011 | 31 December 2010 | Provision as at 31 December 2010 |
|---------------------------------|------------------|-------------------------------------|------------------|-------------------------------------|
| Not past due | 23,057 | (1,388) | 18,262 | (587) |
| Past due for less than 3 months | 3,529 | (264) | 2,653 | (462) |
| Past due for 3 months to 1 year | 5,459 | (1,905) | 5,731 | (1,977) |
| Past due for more than 1 year | 7,668 | (5,861) | 7,526 | (6,533) |
| Total | 39,713 | (9,418) | 34,172 | (9,559) |

Receivables relate to a number of independent customers without recent history of default.

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.

Note 14. Inventories

| | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| Fuel | 11,216 | 9,062 |
| Materials and supplies (Net of provision for impairment of materials and supplies of RR 47 million as at 31 December 2011 and RR 44 million as at 31 December 2010) | 4,122 | 3,336 |
| Spare parts (Net of provision for impairment of spare parts of RR 17 million as at 31 December 2011 and RR 28 million as at 31 December 2010) | 1,429 | 1,234 |
| Other materials | 1,205 | 1,156 |
| Total inventories | 17,972 | 14,788 |

Inventories of RR 259 million (31 December 2010: RR nil million) have been pledged as collateral for borrowings (Note 20).

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Note 15. Other current assets

| | | | | 31 December 2011 | 31 December 2010 |
|--|--------|-------------------|-------------------------|------------------|------------------|
| Promissory notes and deposits | | | | 9,885 | 30,097 |
| Other short-term investments | | | | 59 | 118 |
| Total other current assets | | | | 9,944 | 30,215 |
| | Rating | Rating agency | Effective interest rate | 31 December 2011 | 31 December 2010 |
| Promissory notes | | | | | |
| OJSC Alfa-Bank | BB | Standard & Poor's | - | 577 | 151 |
| OJSC SO UES | - | - | 8.80% | - | 705 |
| OJSC VTB Bank | BBB | Fitch Ratings | 7.00-11.00% | - | 145 |
| Other promissory notes | | | | 135 | 258 |
| Deposits | | | | | |
| OJSC Bank Saint-Petersburg | Ba3 | Moody's | 6.00-7.75% | 2,885 | 1,270 |
| CJSC Peresvet Bank | - | - | 7.10-8.10% | 1,763 | 195 |
| OJSC MDM Bank | BB- | Standard & Poor's | 7.80-10.00% | 1,313 | 730 |
| OJSC Promsvyazbank | Ba2 | Moody's | 2.85-9.75% | 1,037 | 1,980 |
| OJSC NOTA-Bank | - | - | 7.50-13.00% | 800 | 400 |
| OJSC Gazprombank | BB+ | Standard & Poor's | 4.40-8.35% | 188 | 1,550 |
| OJSC Rosselkhozbank | BBB | Fitch Ratings | 5.50-8.00% | 114 | 6,614 |
| OJSC NOMOS-BANK | BB | Fitch Ratings | 4.52-10.90% | - | 6,490 |
| OJSC Bank of Moscow | BBB- | Fitch Ratings | 5.25-6.76% | - | 4,825 |
| OJSC Sberbank of Russia | Baa1 | Moody's | 2.90-4.10% | - | 3,482 |
| Other deposits | | | | 1,073 | 1,301 |
| Total promissory notes and deposits | | | | 9,885 | 30,097 |

Deposits as at 31 December 2011 and 31 December 2010 comprised short-term bank deposits with original maturities of more than three months.

Note 16. Non-current assets classified as held for sale and discontinued operation*Non-current assets classified as held for sale and Disposal group*

As at 31 December 2010 Disposal group (Note 1) and the Group's certain equity available-for-sale investments, including a 15.48 percent investment in OJSC WGC-1 (Note 9) were classified as held for sale.

On 28 March 2011 (hereinafter referred to as the "Date of disposal") the Group transferred assets held for sale and Disposal group as a contribution to the share capital of OJSC INTER RAO UES in accordance with the decisions of the Russian Government defining the list of assets to be contributed in the course of additional share issue of OJSC INTER RAO UES.

Non-current assets classified as held for sale and Disposal group are represented by:

| | Date of disposal | 31 December 2010 |
|--|------------------|------------------|
| Assets of Disposal group classified as held for sale | 53,849 | 36,686 |
| Available-for-sale financial assets | 15,930 | 18,507 |
| Total non-current assets and assets of Disposal Group classified as held for sale | 69,779 | 55,193 |
| Total liabilities of Disposal group classified as held for sale | 41,800 | 29,506 |

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Net assets of Disposal group are represented by:

| | Date of disposal 31 December 2010 | |
|--|-----------------------------------|---------------|
| Non-current assets | | |
| Property, plant and equipment | 5,834 | 5,760 |
| Deferred income tax asset | 412 | 304 |
| Goodwill | 396 | 396 |
| Other non-current assets | 1,604 | 1,850 |
| Total non-current assets | 8,246 | 8,310 |
| Current assets | | |
| Cash and cash equivalents | 17,325 | 5,896 |
| Trade receivables | 23,369 | 18,195 |
| Advances to suppliers and prepayments | 664 | 386 |
| Other receivables | 2,950 | 2,370 |
| Inventories | 284 | 268 |
| Other current assets | 1,011 | 1,261 |
| Total current assets | 45,603 | 28,376 |
| Assets of Disposal group classified as held for sale | 53,849 | 36,686 |
| Non-current liabilities | | |
| Deferred income tax liabilities | 1,203 | 1,020 |
| Other non-current liabilities | 254 | 517 |
| Total non-current liabilities | 1,457 | 1,537 |
| Current liabilities | | |
| Current debt and current portion of non-current debt | 704 | 1,429 |
| Trade accounts payable | 25,457 | 14,905 |
| Advances received | 8,503 | 7,673 |
| Other payables | 2,113 | 2,321 |
| Current income tax payable | 1,241 | 424 |
| Other taxes payable | 2,325 | 1,217 |
| Total current liabilities | 40,343 | 27,969 |
| Liabilities of Disposal group classified as held for sale | 41,800 | 29,506 |
| Net assets of Disposal group | 12,049 | 7,180 |

As at 31 December 2010 the line Cash and cash equivalents in the Consolidated Statement of Cash Flows included RR 5,896 million of cash and cash equivalents held by Disposal group (Notes 1, 16).

Losses arising on available-for-sale financial assets classified as held for sale from 1 January 2011 up to the Date of disposal totaled RR 2,577 million.

Gain on disposal of available-for-sale financial assets and Disposal group comprised RR 750 million, as summarised below:

| | Date of disposal |
|--|------------------|
| Net assets of Disposal group | (12,049) |
| Net assets of Disposal group attributable to non-controlling interest holders | 5,593 |
| Available-for-sale financial assets classified as held for sale | (15,930) |
| Fair value of consideration received (OJSC INTER RAO shares) | 20,660 |
| Accumulated gain on available-for-sale financial assets recycled to the Income Statement (related deferred tax liability of RR 436 million) | 2,476 |
| Gain on disposal of available-for-sale financial assets and Disposal group* | 750 |

* Includes effect from disposal of remaining 1.71 percent interest in OJSC WGC-1, which was transferred on 5 May 2011.

Disposal group profit for the period from 1 January 2011 up to the Date of disposal attributable to non-controlling interest holders comprised RR 2,337 million (for the year ended 31 December 2010: RR 3,289 million).

RusHydro Group**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011**

(in millions of Russian Rubles unless noted otherwise)

Discontinued operation

As at 31 December 2011 OJSC DRSK is presented as a discontinued operation due to the fact that it was acquired exclusively with a view for resale (Note 1).

Result of discontinued operation up to 31 December 2011 is summarised below:

| | Period from 28 October 2011 up to 31 December 2011 |
|--|---|
| Revenue | 708 |
| Expenses | (830) |
| Finance income, net | 41 |
| Loss before income tax from discontinued operations | (81) |
| Income tax expense | (2,204) |
| Loss for the period from discontinued operations | (2,285) |

As at 31 December 2011 the line Cash and cash equivalents in the Consolidated Statement of Cash Flows included RR 77 million of cash and cash equivalents held by OJSC DRSK (Note 1).

Note 17. Equity

| | Number of issued ordinary shares (Par value of RR 1.00) |
|------------------------|--|
| As at 31 December 2011 | 290,302,702,379 |
| As at 31 December 2010 | 288,695,430,802 |
| As at 31 December 2009 | 269,695,430,802 |

Additional share issue registered with the FSFM on 19 November 2009. On 10 June 2009 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 19,000,000,000 ordinary shares with a par value of RR 1.00 and placement price of RR 1.15 per share by open subscription with a cash consideration.

Out of the total offering all of 19,000,000,000 shares were placed. The Report on the share issue was registered with the FSFM on 30 September 2010.

Additional share issue registered with the FSFM on 2 December 2010. On 22 October 2010 the Extraordinary General Meeting of shareholders of the Company adopted a resolution to make a placement of 1,860,000,000 ordinary shares with a par value of RR 1.00 and placement price of RR 1.61 per share by open subscription with a cash consideration.

As at 31 December 2010 the share issue was not completed and the Group had an obligation of RR 1,500 million to the Russian Federation, represented by the Federal Agency for State Property Management. The Report on the share issue was registered with the FSFM on 21 April 2011. As a result of the share issue 1,607,271,577 ordinary shares were placed and premium of RR 981 million was recorded within equity.

Additional share issue registered with the FSFM on 16 August 2011. On 30 June 2011 the Annual General Meeting of shareholders of the Company adopted a resolution to make a placement of 89,000,000,000 ordinary shares with a par value of RR 1.00 and placement price of RR 1.65 per share by open subscription with cash and non-cash considerations.

In 2011 the Group has received the following contributions in exchange for additional shares issued:

- controlling interest in RAO Energy System of East Group, controlling and non-controlling interests in other companies (Notes 1, 10);
- hydropower facilities: dams of Bratskaya, Ust'-Il'mskaya and Irkutskaya HPPs (Note 11);
- cash contribution in the amount of RR 3,133 million from the Russian Federation.

As at 31 December 2011 the share issue was not completed and the Group had an obligation of RR 43,604 million including obligation of RR 34,766 million to the Russian Federation, represented by the Federal Agency for State Property Management.

As at 31 December 2011 out of the total offering 26,426,831,049 ordinary shares were placed.

RusHydro Group

Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011

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Treasury shares. Treasury shares as at 31 December 2011 were represented by 8,703,751,898 ordinary shares in the amount of RR 10,662 million (31 December 2010: 8,133,293,781 ordinary shares in the amount of RR 9,744 million).

The number of treasury shares as at 31 December 2011 included 5,762,190,115 ordinary shares under the Share Option Programmes (31 December 2010: 5,761,827,536) (Note 7).

On 8 December 2010 the Group exchanged 13,082,804,094 treasury shares for 97,775,000 ordinary shares of OJSC Krasnoyarskaya HPP (Notes 1, 9). The difference between the fair value of the transferred treasury shares being RR 21,207 million and their weighted average cost being RR 15,609 million comprised RR 5,598 million and was recorded as a share premium.

In 2010 the Group purchased 11,211,750,731 treasury shares, including 11,079,352,436 shares acquired by the Group's subsidiary OJSC HydroInvest in the course of the Company's share issue of 19,000,000,000 ordinary shares. During the year ended 31 December 2011 OJSC HydroInvest purchased 569,891,293 treasury shares in the course of the Company's share issue of 1,860,000,000 ordinary shares for a cash consideration of RR 918 million.

Treasury shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by entities within the Group are effectively controlled by management of the Group.

Transactions with parties under common control. Based on the application of the predecessor values method of accounting in 2010 and 2011, the difference of RR 127,216 million as at 31 December 2011 (31 December 2010: RR 94,973 million) between the amount of consideration (including the placement price of shares issued) and the IFRS carrying value of the purchased or contributed assets and non-controlling interest has been recorded as a merger reserve within equity. The change of merge reserve in the amount of RR 32,243 million relates to assets, controlling and non-controlling interests that were received from the Russian Federation in the course of additional share issue registered with the FSFM on 16 August 2011.

As a result of these transactions, non-controlling interest increased due to obtaining control over OJSC DRSK with effective ownership of 36.39 percent and decreased due to acquisition of additional interests in several Group's subsidiaries to the total change of RR 11,611 million (Note 1).

Disposal of subsidiaries (Disposal group). During the year ended 31 December 2011 the Group has transferred its interests in certain subsidiaries included in Disposal group as a contribution to the share capital of OJSC INTER RAO UES (Note 16), as a result non-controlling interest reduced by RR 5,593 million.

Effect of changes in non-controlling interest of subsidiaries. On 25 August 2011 OJSC RusHydro Bashkortostan Efficiency was founded, in which the Group has 50.98 percent interest, as a result non-controlling interest for RR 1,000 million.

In 2011 the Group received 29.80 percent interest in OJSC Yakutskenergo in exchange for additional shares issued registered with the FSFM on 16 August 2011 (Note 1). As a result non-controlling interest decreased by RR 3,015 million.

Dividends. In accordance with the Russian legislation the Group distributes profits as dividends on the basis of financial statements prepared in accordance with RSA.

On 30 June 2011 the Group declared dividends for the year ended 31 December 2010 of RR 0.0086 per share in the total amount of RR 2,450 million that were paid during the year ended 31 December 2011 and deducted from equity.

Dividends in favour of non-controlling interest holders were declared by the Group's subsidiaries in the amount of RR 210 million for the year ended 31 December 2011 (for the year ended 31 December 2010: RR 1 951 million).

RusHydro Group**Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011**

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Note 18. Income tax

Income tax expense is as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|--------------------------------|--------------------------------|
| Current income tax expense / (benefit) from continuing operations | 11,187 | (8,999) |
| Deferred income tax expense from continuing operations | 747 | 17,094 |
| Total income tax expense from continuing operations | 11,934 | 8,095 |
| Current income tax expense from discontinued operations | 35 | - |
| Deferred income tax expense from discontinued operations | 2,169 | - |
| Total income tax expense from discontinued operations | 2,204 | - |

The income tax rate applicable to the majority of the Group's entities for the year ended 31 December 2011 is 20 percent (for the year ended 31 December 2010: 20 percent).

A reconciliation between the expected and actual income tax expense is provided below:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|--------------------------------|--------------------------------|
| Profit before income tax from continuing operations | 43,712 | 18,494 |
| (Loss) before income tax from discontinued operations | (81) | |
| Theoretical tax charge at a statutory rate of 20 percent | (8,726) | (3,699) |
| Tax effect of items which are not deductible or assessable for taxation purposes | (3,516) | (4,420) |
| Unrecognised deferred tax liability in respect of associates and jointly controlled entities (Note 9) | (1,189) | 1,503 |
| Current tax charge related to disposal of treasury shares | - | (1,164) |
| Deferred tax recognised in respect of disposal group | (267) | 267 |
| Recognition of previously unrecognised deferred tax assets related to available-for-sale financial assets | 436 | 145 |
| Other unrecognised deferred income tax asset movements | (876) | (727) |
| Total income tax expense | (14,138) | (8,095) |
| Less income tax expense from discontinued operations | (2,204) | - |
| Total income tax expense from continuing operations | (11,934) | (8,095) |

The total amount of deductible temporary differences for which deferred income tax assets have not been recognised by the Group as at 31 December 2011 comprised RR 53,512 million (31 December 2010: RR 51,846 million). These temporary differences mainly relate to accumulated impairment of property, plant and equipment of several Group's subsidiaries and impairment of available-for-sale financial assets.

Deferred income tax. Differences between IFRS and statutory taxation regulations in the Russian Federation give rise to temporary differences between the carrying amount of certain 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 percent (for the year ended 31 December 2010: 20 percent).

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| | 31 December 2010 | Income tax charge for continuing operations | Income tax charge for discontinued operations | Charged directly to other comprehen- sive income | Disposal of subsi- diaries | Business combi- nations | 31 December 2011 |
|---|---------------------|--|--|--|----------------------------------|-------------------------------|---------------------|
| Property, plant and equipment | 50,247 | 180 | 55 | (2,825) | 3 | 15 | 47,675 |
| Accounts receivable | (4,978) | 51 | (44) | - | 110 | (6) | (4,867) |
| Inventories | (101) | 65 | - | - | - | - | (36) |
| Loans and borrowings | 789 | (327) | - | - | - | - | 462 |
| Losses carried forward | (335) | (48) | - | - | - | - | (383) |
| Available-for-sale financial assets | 248 | 362 | - | (610) | - | - | - |
| Investment in OJSC DRSK | - | - | 2,254 | - | - | - | 2,254 |
| Other | (1,761) | 464 | (96) | - | (189) | 817 | (765) |
| Deferred income tax liabilities, net | 44,109 | 747 | 2,169 | (3,435) | (76) | 826 | 44,340 |
| Deferred income tax assets | (18,083) | 1,871 | (138) | - | 109 | (5) | (16,246) |
| Deferred income tax liabilities | 62,192 | (1,124) | 2,307 | (3,435) | (185) | 831 | 60,586 |

| | 31 December 2009 | Charged / (credited) to the income statement | Charged directly to other comprehen- sive income | Reclassifi- cation to Disposal group | Business combinations | 31 December 2010 |
|---|---------------------|---|--|---|--------------------------|---------------------|
| Property, plant and equipment | 35,906 | (5,381) | 20,302 | (587) | 7 | 50,247 |
| Accounts receivable | (2,040) | (3,152) | - | 223 | (9) | (4,978) |
| Inventories | (27) | (74) | - | - | - | (101) |
| Loans and borrowings | 483 | 307 | - | - | - | 789 |
| Losses carried forward | (658) | 323 | - | - | - | (335) |
| Available-for-sale financial assets | 434 | (186) | - | - | - | 248 |
| Other | (502) | (836) | (88) | (352) | 17 | (1,761) |
| Deferred income tax liabilities, net | 33,596 | (8,999) | 20,214 | (716) | 14 | 44,109 |
| Deferred income tax assets | (11,311) | (5,744) | - | (1,019) | (9) | (18,083) |
| Deferred income tax liabilities | 44,907 | (3,255) | 20,214 | 303 | 23 | 62,192 |

In accordance with the tax legislation, tax losses and current income tax assets of different Group's entities may not be offset against current income tax liabilities and taxable profits of other Group's entities and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only when they relate to the same taxable entity.

The Group did not have significant unrecognised deferred tax liabilities in respect of taxable temporary differences associated with investments in subsidiaries as at 31 December 2011 and 31 December 2010.

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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 | 12,549 | 10,741 |
| Fair value of plan assets | (294) | (224) |
| Unrecognised actuarial (losses) / gains | 297 | (104) |
| Unrecognised past service cost | (896) | (1,029) |
| Net liability | 11,656 | 9,384 |

Amounts recognised in the Group's Consolidated Income Statement:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---------------------------------|--------------------------------|--------------------------------|
| Current service cost | 633 | 460 |
| Interest cost | 881 | 818 |
| Net actuarial loss | 24 | 10 |
| Past service cost | 115 | 122 |
| Termination benefits | - | 76 |
| Settlement and curtailment gain | (474) | (170) |
| Net expense | 1,179 | 1,316 |

Changes in the present value of the Group's pension benefit obligation are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|------------------|------------------|
| Net liability at the beginning of the year | 9,384 | 8,736 |
| Net expense recognised in profit or loss for the year | 1,179 | 1,316 |
| Contributions | (492) | (668) |
| Other (OJSC DRSK) | 1,585 | - |
| Net liability at the end of the year | 11,656 | 9,384 |

Experience adjustment on benefit obligations is as follows:

| | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| Defined benefit obligations | 12,549 | 10,741 |
| Plan assets | 294 | 224 |
| Deficit | 12,255 | 10,517 |
| Experience adjustments on plan liabilities | 184 | (122) |
| Experience adjustments on plan assets | 5 | (21) |

The Group expects to contribute RR 500 million to the defined benefit plans in 2012.

Principal actuarial assumptions for the Group are as follows:

| | 31 December 2011 | 31 December 2010 |
|-----------------------|------------------|------------------|
| Nominal discount rate | 8.50% | 8.00% |
| Wage growth rate | 9.72% | 7.50-9.72% |
| Inflation rate | 5.50% | 5.50-6.00% |

RusHydro Group
Notes to the Consolidated Financial Statements as at and for the year ended 31 December 2011

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Note 20. Current and non-current debt
Non-current debt

| | Currency | Effective interest rate | Due date | 31 December 2011 | 31 December 2010 |
|---|----------|--------------------------|-----------|------------------|------------------|
| OJSC Sberbank of Russia | RR | 6.40-11.00% | 2013-2017 | 44,164 | 8,505 |
| Eurobonds issued in October 2010 (RusHydro Finance Ltd) | RR | 7.875% | 2015 | 19,945 | 20,000 |
| Russian bonds (OJSC RusHydro) | RR | 8.00% | 2016** | 14,984 | - |
| OJSC ROSBANK | RR | 6.46-9.00% | 2014 | 7,458 | 1,724 |
| OJSC Gazprombank | RR | 7.30-10.50% | 2017 | 7,149 | 4,640 |
| Russian bonds (OJSC Yakutskenergo) | RR | 8.25% | 2013 | 3,960 | 3,960 |
| EBRD | RR | MOSPRIME+ 2.75-3.65% | 2014-2020 | 4,455 | 5,169 |
| EM Falcon Ltd* | RR | MOSPRIME+1.40%/ 8.65% | 2013-2014 | 3,346 | 4,269 |
| CF Structured Products B. V. | USD | 10.50% | 2013 | 1,932 | 1,829 |
| Municipal authority of Kamchatka region | USD | 8.57% | 2035 | 1,400 | 1,344 |
| Russian bonds (OJSC RusHydro MC) | RR | 8.10% | 2011 | - | 5,000 |
| OJSC Bank of Moscow | RR | 7.44-10.27% | 2011 | - | 943 |
| Other long-term debt | RR | | | 1,719 | 3,054 |
| Finance lease liabilities | RR | 11.10-20.00% | - | 2,742 | 2,907 |
| Total | | | | 113,254 | 63,344 |
| Less current portion of finance lease liabilities | | | | (1,234) | (1,276) |
| Less current portion of non-current debt | | | | (9,396) | (10,489) |
| Total non-current debt | | | | 102,624 | 51,579 |

* Change of Morgan Stanley Bank International Ltd with EM Falcon Ltd was made in accordance with transfer agreement dated 28 June 2011.

** The bonds mature in 10 years with a put option to redeem them in 2016.

OJSC Sberbank of Russia. In November 2011 the Group signed the loan agreement with OJSC Sberbank of Russia for opening of the non-renewable line of credit for financing of the operating, financial and investment activities with limit of RR 40,000 million and the period of debt issue till 31 January 2012. During year 2011 the Group received RR 23,520 million. Interest on the loan agreement is payable quarterly on rate of 8.25 percent per annum during the period from date of issue till 27 April 2012, further before repayment date – on the variable interest rate defined according to contract terms (8.25 percent or 9.25 percent). The loan is scheduled for repayment on 17 November 2013.

Russian bonds (OJSC RusHydro). In April 2011 the Group placed bonds issue of series 01 in the total amount of RR 10,000 million and series 02 in the total amount of RR 5,000 million through the public offering, shown as at 31 December 2011 net of transaction costs in the amount of RR 16 million. The bonds mature in 10 years with a put option to redeem them in 5 years, coupon rate of 8 percent per annum was determined for the first 5 years period only. Interest is payable on a semi-annual basis. Russian bonds could have been partly purchased by government-related entities.

EM Falcon Ltd. Starting from 1 April 2011 the Group renegotiated the terms of its loan agreements with Morgan Stanley Bank International Ltd, which changed the interest rates from 8.75 percent to 8.65 percent for the loan due in 2013 and from MOSPRIME+1.50 percent to MOSPRIME+1.40 percent for the loan due in 2014.

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Current debt

| | Currency | Effective interest rate | 31 December 2011 | 31 December 2010 |
|---|----------|-------------------------|------------------|------------------|
| OJSC Sberbank of Russia | RR | 5.25-14.00% | 5,323 | 1,938 |
| AB Bank Rossiya | RR | 7.50% | 2,300 | 1,334 |
| OJSC ROSBANK | RR | 5.90-13.00% | 1,278 | 6,623 |
| OJSC Transcreditbank | RR | 6.50-14.00% | 212 | 4,039 |
| OJSC AKB Bank of Moscow | RR | 5.00-11.25% | 109 | 1,567 |
| CJSC Raiffeisenbank | RR | 6.94-7.28% | - | 1,300 |
| OJSC Gazprombank | RR | 6.50-10.50% | - | 1,038 |
| Current portion of non-current debt | RR | - | 9,396 | 10,489 |
| Current portion of finance lease liabilities | RR | 11.10-20.00% | 1,234 | 1,275 |
| Interest payable | RR | - | 914 | 824 |
| Short-term derivative financial instruments – interest rate swaps | RR | - | 3 | 25 |
| Other current debt | RR | - | 645 | 735 |
| Total current debt and current portion of non-current debt | | | 21,414 | 31,187 |

Compliance with covenants. The Group is subject to certain covenants related primarily to its debt.

As at 31 December 2011 the Group received a covenant waiver from OJSC Rosbank confirming absence of intention to request early repayment of outstanding loan as the Group did not fulfill the requirements regarding gearing and other ratios.

As at 31 December 2010 OJSC Rosbank was contractually entitled to request early repayment of outstanding loan in the amount of RR 1,318 million due to breach of covenant clauses. This outstanding balance was reclassified to current liability. Subsequent to the year end the covenant waiver was received, no early redemption was requested.

Debt maturity (excluding finance lease liabilities)

| | 31 December 2011 | 31 December 2010 |
|------------------------------|------------------|------------------|
| Between one and two years | 54,913 | 17,636 |
| Between two and three years | 3,694 | 5,393 |
| Between three and four years | 4,178 | 3,054 |
| Between four and five years | 35,930 | 21,410 |
| After five years | 2,401 | 2,455 |
| Total | 101,116 | 49,948 |

Effective interest rate. The effective interest rate is the market interest rate applicable to the loans at the date of origination for fixed rate loans and the current market rate for floating rate loans. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

Finance lease liabilities. 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 as at 31 December 2011 | 1,424 | 1,800 | 4 | 3,228 |
| Less future finance charges | (190) | (296) | - | (486) |
| Present value of minimum lease payments as at 31 December 2011 | 1,234 | 1,504 | 4 | 2,742 |
| Minimum lease payments as at 31 December 2010 | 1,515 | 2,026 | 13 | 3,554 |
| Less future finance charges | (239) | (401) | (7) | (647) |
| Present value of minimum lease payments as at 31 December 2010 | 1,276 | 1,625 | 6 | 2,907 |

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Note 21. Other non-current liabilities

| | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| Pension benefit obligations (Note 19) | 9,985 | 9,137 |
| Other non-current liabilities | 3,016 | 1,369 |
| Total other non-current liabilities | 13,001 | 10,506 |

As at 31 December 2010 the amount of pension benefit obligations did not include liabilities of Disposal group in the amount of RR 247 million, as at 31 December 2011 – liabilities of OJSC DRSK in the amount of RR 1,671 million.

Note 22. Accounts payable and accruals

| | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| Trade payables | 22,375 | 15,011 |
| Advances received | 6,101 | 4,601 |
| Settlements with personnel | 5,562 | 5,376 |
| Dividends payable | 54 | 44 |
| Other accounts payable | 5,938 | 2,526 |
| Total accounts payable and accruals | 40,030 | 27,558 |

As at 31 December 2011 the Group's subsidiary OJSC Ust'-Srednekanskaya HPP had an obligation of RR 2,649 million included in Other accounts payable balance (31 December 2010: RR nil million) to the Russian Federation, represented by the Federal Agency for State Property Management, in respect of additional share issue. The results of the share issue had not been registered by the FSFM as at 31 December 2011.

As at 31 December 2011 the Group's subsidiary OJSC RAO Energy System of East had an obligation of RR 748 million included in Other accounts payable balance (31 December 2010: RR nil million) to the Russian Federation, represented by the Federal Agency for State Property Management, in respect of additional share issue. The results of the share issue was registered by the FSFM on 7 February 2012.

All accounts payable and accruals are denominated in Russian Rubles.

Note 23. Taxes payable

| | 31 December 2011 | 31 December 2010 |
|----------------------------|------------------|------------------|
| Current income tax | 407 | 1,908 |
| VAT | 3,990 | 4,395 |
| Property tax | 1,646 | 1,667 |
| Insurance contributions | 1,420 | 803 |
| Other taxes | 555 | 707 |
| Total taxes payable | 8,018 | 9,480 |

Note 24. Revenue

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|--|--------------------------------|--------------------------------|
| Sales of electricity | 280,176 | 440,651 |
| Sales of capacity | 32,719 | 41,890 |
| Sales of heat | 27,456 | 22,105 |
| Other revenue | 22,248 | 21,935 |
| Total revenue | 362,599 | 526,581 |
| Including: | | |
| Total revenue less revenue of Disposal group | 266,814 | 233,448 |
| Revenue of Disposal group (Note 1) | 95,785 | 293,133 |

Other revenue includes revenue earned from transportation of electricity and heat, connections to the grid, rendering of construction, repairs and other services.

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Note 25. Government grants

In accordance with government decrees some regions of the Russian Federation are entitled to 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 the amount of RR 9,097 million (for the year ended 31 December 2010: RR 8,295 million) in the following subsidised territories: Khabarovskiy region, Primorskiy region and other Far East regions.

Note 26. Expenses

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|--|--------------------------------|--------------------------------|
| Purchased electricity and capacity | 82,624 | 184,484 |
| Electricity distribution expenses | 73,940 | 144,241 |
| Employee benefit expenses (including payroll taxes, Share Option Programmes expenses and pension benefit expenses) | 46,371 | 42,360 |
| Fuel expenses | 45,145 | 37,601 |
| Depreciation of property, plant and equipment | 16,421 | 14,730 |
| Other materials | 9,564 | 7,794 |
| Taxes other than on income | 6,452 | 7,206 |
| Third parties services, including: | | |
| Services of subcontracting companies | 3,945 | 4,711 |
| Repairs and maintenance | 3,596 | 3,982 |
| Services of SO UES, ATS, CFS | 3,128 | 2,713 |
| Security expenses | 2,178 | 1,551 |
| Rent | 2,100 | 2,352 |
| Consulting, legal and information expenses | 1,947 | 1,937 |
| Insurance cost | 834 | 754 |
| Transportation expenses | 597 | 1,063 |
| Agency expenses | 462 | 1,570 |
| Other third parties services | 3,666 | 3,148 |
| Water usage expenses | 2,658 | 2,197 |
| Social charges | 2,533 | 2,006 |
| Loss on disposal of property, plant and equipment, net | 2,464 | 5,386 |
| Accrual of impairment for accounts receivable, net | 8 | 2,751 |
| Other expenses | 2,984 | 4,582 |
| Total expenses | 313,617 | 479,119 |
| Including: | | |
| Total expenses less expenses of Disposal group | 226,448 | 199,510 |
| Expenses of Disposal group (Note 1) | 87,169 | 279,609 |

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Note 27. Finance income, costs

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|--|--------------------------------|--------------------------------|
| <i>Finance income</i> | | |
| Interest income | 3,442 | 3,848 |
| Income on discounting | 582 | 130 |
| Foreign exchange gain | 129 | 118 |
| Other income | 30 | 98 |
| Total finance income | 4,183 | 4,194 |
| <i>Finance costs</i> | | |
| Loss on derivative financial instruments | (127) | (61) |
| Foreign exchange loss | (242) | (107) |
| Finance lease expense | (517) | (1,272) |
| Expense on discounting | (620) | (657) |
| Interest expense | (3,722) | (6,702) |
| Other costs | (1,164) | (935) |
| Total finance costs | (6,392) | (9,734) |

Note 28. Earnings per share

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|--|--------------------------------|--------------------------------|
| Weighted average number of ordinary shares issued (thousands of shares) | 281,247,952 | 260,732,852 |
| Profit for the period from continuing operations attributable to the shareholders of OJSC RusHydro | 32,243 | 9,139 |
| Loss for the period from discontinued operations attributable to the shareholders of OJSC RusHydro | (832) | - |
| Earnings per share from continuing operations attributable to the shareholders of OJSC RusHydro – basic and diluted* (in Russian Rubles per share) | 0.1146 | 0.0350 |
| Loss per share from discontinued operations attributable to the shareholders of OJSC RusHydro – basic and diluted* (in Russian Rubles per share) | (0.0030) | - |

* The Share Option Programmes 2007 and 2010 had no dilutive effect for the periods presented (Note 7).

Note 29. Commitments

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 commitments. Future capital expenditures in accordance with the contractual obligations amounted to RR 176,868 million as at 31 December 2011 (31 December 2010: RR 83,803 million). The major part of future capital expenditures under contractual obligations as at 31 December 2011 are related to the following hydropower plants: Saratovskaya HPP in the amount of RR 41,295 million, Volzhskaya HPP in the amount of RR 42,368 million due to the reconstruction of equipment, Zagorskaya GAES-2 in the amount of RR 21,397 million mainly due to the construction the station.

Note 30. Contingencies

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.

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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.

In connection with the accident at Sayano-Shushenskaya HPP in August 2009, there is a possibility of a large number of claims related to the accident, which subject may include: compensation of damage caused to life and health, compensation of losses from termination of contracts, other proceedings. Moreover, the prosecutor's office and other oversight bodies are examining operations of the Company and this also may result in additional claims against the Company and its employees.

Tax contingencies. The Russian tax, currency and customs legislation is 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.

In 2011 the new tax law on transfer pricing was enacted in Russia, which applies prospectively to the new operations starting from 1 January 2012. It introduces strict requirements to the documentation of transactions which fall within the scope of control of tax authorities. There is a possibility that as the transfer pricing rules interpretations evolve the actual transfer prices used in transactions which fall within the scope of control may be argued by tax authorities. The impact of such potential claims cannot be reliably estimated but could be material.

Due to the fact, that the tax and other legislation does not fully cover all the aspects of the Group's reorganisation, there might be respective legal and tax risks.

Management believes that as at 31 December 2011 its interpretation of the relevant legislation was appropriate and the Group's tax, currency and customs positions would be sustained.

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 dumps used by the Group which is included in other non-current liabilities (Note 20) and comprised RR 527 million as at 31 December 2011 (31 December 2010: RR 168 million).

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.

Guarantees. The Group has issued guarantees for CJSC Boguchansky Aluminium Plant in favour of its suppliers for future equipment deliveries and for OJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the loan facility:

| Counterparty | 31 December 2011 | 31 December 2010 |
|--|------------------|------------------|
| <i>for OJSC Boguchanskaya HPP:</i> | | |
| State Corporation Vnesheconombank | 10,546 | - |
| <i>for CJSC Boguchansky Aluminium Plant:</i> | | |
| ALSTOM Grid SAS | 571 | 778 |
| Solios Environnement S. A. | 674 | 662 |
| CJSC Commerzbank (Eurasia) | 178 | 172 |
| Total guarantees issued | 11,969 | 1,612 |

In August 2011 the Group issued guarantee for OJSC Boguchanskaya HPP in favour of the State Corporation Vnesheconombank for the total amount of loan facility of RR 28,100 million including accrued interest and penalties under the loan agreement. As at 31 December 2011 total amount of obligation of OJSC Boguchanskaya HPP in respect of loans issued by the State Corporation Vnesheconombank (including interest payable) equaled to RR 10,546 million. RUSAL Group is obliged to compensate the

Company for the 50 percent of OJSC Boguchanskaya HPP obligations fulfilled by the Company under the guarantee.

BEMA project financing scheme. In May 2006 the Company and RUSAL Group entered into an agreement for mutual financing, completion and subsequent operation of Boguchanskaya HPP, with an installed capacity of 2,997 MW, and Boguchansky aluminium plant, with a capacity of 597,000 tonnes of aluminium per annum. The Company and RUSAL Group agreed to finance the construction on a parity basis (hereinafter referred to as "BEMA project"). Within BEMA project jointly-controlled entities were formed, which have controlling interests in OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant.

BEMA project was financed by the Group through the purchase of interest-free long-term promissory notes of OJSC Boguchanskaya HPP and CJSC Boguchansky Aluminium Plant. Starting from December 2010 the construction is financed through the loan facilities, being received under the loan agreements with the State Corporation Vnesheconombank which were concluded in December 2010 for the total amount of RR 50,010 million.

As at 31 December 2011 OJSC Boguchanskaya HPP received part of the loan in the amount of RR 10,537 million (31 December 2010: RR 630 million) out of the total of RR 28,100 million with a maturity date of 20 December 2026.

Pursuant to the loan agreement, the State Corporation Vnesheconombank shall fund the loan in tranches subject to the construction of Boguchanskaya HPP in compliance with the construction timetable. In case of any delay in the construction, the OJSC Boguchanskaya HPP may experience difficulties in obtaining loan tranches in due time. Moreover, in case of delays in the construction timetable or any default under the facility agreement, the loan commitment may be cancelled and the loan may be accelerated.

The Group provided a pledge of 51 percent of the shares of CJSC Boguchanskaya HPP Construction Organiser, the Group's subsidiary, and 49 percent of the shares of CJSC Boguchanskaya HPP Construction Customer, the Group's associate, interest-free long-term promissory notes of OJSC Boguchanskaya HPP payable not earlier than 31 December 2029 with total nominal value of RR 21,027 million. Amortised cost of the promissory notes as at 31 December 2011 amounted to RR 3,935 million (Note 11).

In August 2011 additional agreement with the State Corporation Vnesheconombank was concluded according to which the Group has a liability for purchase of defined volumes of electricity and capacity, generated by OJSC Boguchanskaya HPP starting from 2012 at the price equal to the greatest amount of market value defined for the certain period of supply in the relevant price zone and / or a group of supply points, and the minimum guaranteed payment. The market price of electricity is based on the volume-weighted average price of deliveries to the one-day-ahead market less 8 percent, the market value of capacity – based on actual prices determined by competitive selection of power less 5 percent.

As at 31 December 2011 CJSC Boguchansky Aluminium Plant received part of the loan equivalent to RR 4,684 million denominated in US Dollars (31 December 2010: RR 212 million denominated in US Dollars) out of the total of RR 21,910 million with a maturity date of 20 December 2024.

The Group provided a pledge of 49 percent of the shares of CJSC Boguchansky Aluminium Plant Construction Organiser, the Group's associate, and 51 percent of the shares of CJSC Boguchansky Aluminium Plant Construction Customer, the Group's subsidiary, interest-free long-term promissory notes of OJSC Boguchansky Aluminium Plant payable not earlier than 31 December 2024 with total nominal value of RR 4,615 million. Amortised cost of the promissory notes as at 31 December 2011 amounted to RR 1,336 million (Note 11).

Note 31. 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.

In order to optimise the Group's exposure to risks, the Company constantly works on their identification, assessment and monitoring, as well as the development and implementation of activities which impact on the risks, business continuity management and insurance, seeks to comply with international and national

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standards of advanced risk management (COSO ERM 2004, ISO 31000 and others), increases the culture of risk management and continuously improves risk management.

The Group is exposed to industry risks primarily 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 favourable 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, the FTS.

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.

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 wholesale electricity and capacity markets the Group has introduced marketing policy and procedure to calculate internal ratings of counterparties in the unregulated market, based on the frequency of default, and to establish limits based on the rating of the customers' portfolio.

The Group's management reviews ageing analysis of outstanding trade 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 13.

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, 12 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 34).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

The Group's maximum exposure to credit risk for off-balance sheet financial instruments is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|------------------|------------------|
| Financial guarantees (Note 30) | 11,969 | 1,612 |
| Total off-balance sheet exposure | 11,969 | 1,612 |

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 and capacity 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.

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The table below summarises the Group's exposure to foreign currency exchange rate risk:

| | 31 December 2011 | | | 31 December 2010 | | |
|--------------|------------------------------|--------------------------------------|-------------------------------|------------------------------|--------------------------------------|-------------------------------|
| | Monetary financial assets | Monetary financial liabilities | Net balance sheet position | Monetary financial assets | Monetary financial liabilities | Net balance sheet position |
| USD | 105 | (3,332) | (3,227) | 84 | (3,173) | (3,089) |
| EUR | 708 | - | 708 | 872 | - | 872 |
| Other | 8 | - | 8 | 5 | - | 5 |
| Total | 821 | (3,332) | (2,511) | 961 | (3,173) | (2,212) |

The above analysis includes only monetary assets and liabilities. Equity investments and non-monetary assets are not considered to give rise to any material currency risk.

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

Interest rate risk. The Group's operating profits and cash flows from operating activities are not dependent largely on the changes in the market interest rates. Borrowings issued at variable rates (Note 20) expose the Group to cash flow interest rate risk.

The Group obtains debt financing in Russian Rubles with floating rates, which are established on the basis of the MOSPRIME rate.

As at 31 December 2011, had interest rates at that date been 0.5 percent higher (31 December 2010: 0.5 percent higher), with all other variables held constant, profit would have been RR 39 million (31 December 2010: RR 39 million) lower, mainly as a result of higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. Effective interest rates at the end of the reporting period are disclosed in Note 20.

For the purpose of interest risk reduction the Group makes the following arrangements:

- credit market monitoring to identify favourable credit conditions,
- diversification of credit portfolio by raising of borrowings with fixed rates and floating rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from an adequate amount of committed credit facilities. The Group adheres to the balanced model of financing of working capital – both at the expense of short-term sources and long-term sources. Temporarily free funds are placed into short-term financial instruments, mainly bank deposits and short-term bank promissory notes. Current liabilities are represented mainly by the accounts payable to suppliers and contractors.

The Group has implemented a control system under its contract conclusion process by introducing and applying typical financial arrangements which include standardised payment structure, payment deadlines, percentage ratio between advance and final settlement, etc. In such a manner the Group controls capital maturity.

The table below shows liabilities as 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). Such undiscounted cash flows differ from the amount included in the Consolidated Statement of Financial Position because this amount is based on the discounted cash flows.

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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 20) | 28,531 | 60,861 | 51,097 | 3,131 |
| Trade payables (Note 22) | 22,375 | - | - | - |
| Financial guarantees (Note 30) | 178 | 1,245 | - | 10,546 |
| Dividends payable (Note 22) | 54 | - | - | - |
| Finance lease liabilities (Note 20) | 1,424 | 1,163 | 637 | 4 |
| Net settled derivatives | 15 | 56 | 113 | 42 |
| Total future net payments, including future principal and interest payments | 52,577 | 63,325 | 51,847 | 13,723 |
| Liabilities of discontinued operation (Notes 1, 16) | 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 20) | 36,756 | 17,776 | 39,958 | 9,061 |
| Trade payables (Note 22) | 14,995 | 8 | 4 | 4 |
| Financial guarantees (Note 30) | - | 1,612 | - | - |
| Dividends payable (Note 22) | 44 | - | - | - |
| Finance lease liabilities (Note 20) | 1,515 | 944 | 1,082 | 13 |
| Net settled derivatives | (25) | 28 | 158 | 42 |
| Total future net payments, including future principal and interest payments | 53,285 | 20,368 | 41,202 | 9,120 |
| Liabilities of Disposal group (Notes 1, 16) | 29,506 | - | - | - |

Note 32. Management of capital

Compliance with Russian legislation requirements and policy of capital cost reduction are key objectives of the Group's capital risk management.

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 the 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 the 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 in respect of capital management 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 525,659 million (31 December 2010: RR 539,568 million).

Consistent with others in the energy industry, the Group monitors capital on the basis of a gearing ratio, and ensures that the ratio is not more than 1.0. This ratio is calculated as the total debt divided by the total capital. Debt is calculated as a sum of non-current and current debt, as shown in the Consolidated Statement of Financial Position. Total capital is equal to the total equity, as shown in the Consolidated Statement of Financial Position. Gearing ratio was 0.24 as at 31 December 2011 (31 December 2010: 0.15).

Note 33. 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 and financial derivatives 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 13).

Liabilities carried at amortised cost. 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. The discount rates used ranged from 8.57 percent per annum to 13.90 percent per annum depending on the length and currency of the liability. Carrying amounts of liabilities carried at amortised cost approximate fair values.

Note 34. 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 11) | 15,348 | - | 15,348 |
| Promissory notes | 15,034 | - | 15,034 |
| Deposits | 250 | - | 250 |
| Long-term loans receivable | 64 | - | 64 |
| Available-for-sale financial assets (Note 10) | - | 19,738 | 19,738 |
| Trade and other receivables (Note 13) | 30,295 | - | 30,295 |
| Trade receivables | 26,603 | - | 26,603 |
| Promissory notes receivable | 10 | - | 10 |
| Other financial receivables | 3,682 | - | 3,682 |
| Other current assets (Note 15) | 9,885 | - | 9,885 |
| Promissory notes and deposits | 9,885 | - | 9,885 |
| Cash and cash equivalents (Note 12) | 47,337 | - | 47,337 |
| Total financial assets | 102,865 | 19,738 | 122,603 |
| Non-financial assets | | | 660,710 |
| Total assets of subsidiary acquired exclusively with a view for resale | | | 28,470 |
| Total assets | | | 811,783 |

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

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:

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| | Loans and receivables | Available-for-sale financial assets | Total |
|---|-----------------------|-------------------------------------|----------------|
| Assets | | | |
| Other non-current assets (Note 11) | 13,397 | - | 13,397 |
| Promissory notes | 13,121 | - | 13,121 |
| Deposits | 43 | - | 43 |
| Long-term loans receivable | 233 | - | 233 |
| Available-for-sale financial assets (Note 10) | - | 4,643 | 4,643 |
| Trade and other receivables (Note 13) | 24,613 | - | 24,613 |
| Trade receivables | 20,507 | - | 20,507 |
| Promissory notes receivable | 651 | - | 651 |
| Other financial receivables | 3,455 | - | 3,455 |
| Other current assets (Note 15) | 30,019 | - | 30,019 |
| Promissory notes and deposits | 30,019 | - | 30,019 |
| Cash and cash equivalents (Note 12) | 22,569 | - | 22,569 |
| Total financial assets | 90,598 | 4,643 | 95,241 |
| Available-for-sale assets and financial assets of disposal group classified as held for sale | | | 43,944 |
| Non-financial assets | | | 594,559 |
| Non-financial assets of disposal group classified as held for sale | | | 11,249 |
| Total assets | | | 744,993 |

Note 35. Subsequent events

There were no significant subsequent events that can influence the Group's financial position, cash flows or operating results which took place during the period between reporting date and date of signing of the Group's consolidated financial statements for the year ended 31 December 2011 prepared in accordance to IFRS.