**Joint Stock Company**
**Territorial Generating Company №1**
**and its subsidiaries**

Consolidated Financial Statements
prepared in accordance with
International Financial Reporting Standards
and Independent Auditor's Report
31 December 2011

# Contents

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position ..... 1
Consolidated Statement of Comprehensive Income ..... 2
Consolidated Statement of Changes in Equity ..... 3
Consolidated Statement of Cash Flows ..... 4

Notes to the Consolidated Financial Statements

Note 1. The Group and its operations ..... 5
Note 2. Operating environment of the Group ..... 5
Note 3. Summary of Significant Accounting Polices ..... 6
Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies ..... 18
Note 5. Adoption of New or Revised Standards and Interpretations ..... 19
Note 6. Balances and Transactions with Related Parties ..... 22
Note 7. Property, Plant and Equipment ..... 26
Note 8. Investments in Associates ..... 29
Note 9. Income Taxes ..... 30
Note 10. Other Non-Current Assets ..... 32
Note 11. Cash and Cash Equivalents ..... 32
Note 12. Short-term Investments ..... 32
Note 13. Non-current Assets Held for Sale ..... 32
Note 14. Trade and other receivables ..... 33
Note 15. Inventories ..... 34
Note 16. Share capital ..... 34
Note 17. Long-term Borrowings ..... 35
Note 18. Post-Employment Benefits Obligations ..... 36
Note 19. Short-Term Borrowings ..... 37
Note 20. Trade and other payables ..... 37
Note 21. Other Taxes Payable ..... 37
Note 22. Operating Expenses, net ..... 38
Note 23. Finance income and finance costs ..... 38
Note 24. Earnings per Share ..... 38
Note 25. Commitments ..... 39
Note 26. Contingencies ..... 40
Note 27. Financial Risk Management ..... 41
Note 28. Segment Information ..... 46
Note 29. Events after the Reporting Period ..... 49

# *Independent Auditor's Report*

To the Shareholders and Board of Directors of Joint Stock Company Territorial Generating Company №1:

1 We have audited the accompanying consolidated financial statements of Joint Stock Company Territorial Generating Company №1 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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

## Opinion

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

*ZAO PricewaterhouseCoopers Audit*

23 April 2012
Moscow, Russia

*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.com*

JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011
*(in thousands of Russian Roubles)*

| | Notes | 31 December 2011 | 31 December 2010 Restated* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 120 655 949 | 99 019 521 |
| Investments in associates | 8 | 50 900 | 48 310 |
| Deferred income tax assets | 9 | 728 389 | 756 576 |
| Other non-current assets | 10 | 504 727 | 592 174 |
| **Total non-current assets** | | **121 939 965** | **100 416 581** |
| **Current assets** | | | |
| Cash and cash equivalents | 11 | 375 545 | 277 218 |
| Short-term investments | 12 | 5 847 | 6 201 |
| Trade and other receivables | 14 | 12 657 597 | 9 942 136 |
| Inventories | 15 | 2 912 669 | 2 538 368 |
| | | **15 951 658** | **12 763 923** |
| Non-current assets held for sale | 13 | 50 512 | 184 324 |
| **Total current assets** | | **16 002 170** | **12 948 247** |
| **TOTAL ASSETS** | | **137 942 135** | **113 364 828** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 16 | 38 543 414 | 38 543 414 |
| Share premium | 16 | 22 913 678 | 22 913 678 |
| Merger reserve | 16 | (6 086 949) | (6 086 949) |
| Other reserves | 1 | (1 209 011) | - |
| Retained earnings | | 22 926 052 | 19 369 709 |
| **Equity attributable to the Company's owners** | | **77 087 184** | **74 739 852** |
| Non-controlling interest | | 7 619 391 | (92 046) |
| **TOTAL EQUITY** | | **84 706 575** | **74 647 806** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 9 | 8 618 980 | 5 897 255 |
| Long-term borrowings | 17 | 22 467 746 | 16 294 201 |
| Post-employment benefits obligations | 18 | 891 625 | 891 661 |
| **Total non-current liabilities** | | **31 978 351** | **23 083 117** |
| **Current liabilities** | | | |
| Short-term borrowings | 19 | 11 399 436 | 6 905 720 |
| Trade and other payables | 20 | 9 032 346 | 7 711 142 |
| Current income tax payable | | 82 412 | 444 950 |
| Other taxes payable | 21 | 743 015 | 572 093 |
| **Total current liabilities** | | **21 257 209** | **15 633 905** |
| **TOTAL LIABILITIES** | | **53 235 560** | **38 717 022** |
| **TOTAL EQUITY AND LIABILITIES** | | **137 942 135** | **113 364 828** |

Approved for issue and signed on behalf of the Board of Directors on 23 April 2012.

General Director — A.N. Filippov
Chief Accountant — R.V. Stanishevskaya

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.
*Certain amounts do not correspond to the 2010 consolidated financial statement and reflect adjustments made as detailed in Note 3

| | Notes | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| | | | **Restated*** |
| **Revenue** | | | |
| Sales of electricity | | 36 181 480 | 27 484 403 |
| Sales of heat | | 23 459 879 | 22 346 736 |
| Other sales | | 610 401 | 655 678 |
| **Total revenue** | | **60 251 760** | **50 486 817** |
| Operating expenses, net | 22 | (53 207 168) | (46 066 713) |
| Impairment loss reversed during the year | 7 | - | 4 007 001 |
| Impairment loss recognised during the year | 7 | (27 417) | (42 698) |
| **Total operating expenses** | | **(53 234 585)** | **(42 102 410)** |
| **Operating profit** | | **7 017 175** | **8 384 407** |
| Finance income | 23 | 19 694 | 88 781 |
| Finance costs | 23 | (1 750 806) | (211 176) |
| **Finance costs, net** | | **(1 731 112)** | **(122 395)** |
| **Profit before income tax** | | **5 286 063** | **8 262 012** |
| Income tax expense | 9 | (1 384 297) | (1 745 252) |
| **Profit for the year** | | **3 901 766** | **6 516 760** |
| **Other comprehensive income** | | | |
| Net change in fair value of available-for-sale investments | | - | (201 815) |
| Income tax on other comprehensive income | | - | 40 363 |
| **Other comprehensive income for the year** | | **-** | **(161 452)** |
| **Total comprehensive income for the year** | | **3 901 766** | **6 355 308** |
| **Profit is attributable to:** | | | |
| Owners of the Company | | 3 736 690 | 6 608 806 |
| Non-controlling interests | | 165 076 | (92 046) |
| **Profit for the year** | | **3 901 766** | **6 516 760** |
| **Total comprehensive income is attributable to:** | | | |
| Owners of the Company | | 3 736 690 | 6 447 354 |
| Non-controlling interests | | 165 076 | (92 046) |
| **Total comprehensive income for the year** | | **3 901 766** | **6 355 308** |
| Earnings per ordinary share for profit attributable to owners of the Company, basic and diluted (in Russian Roubles) | 24 | 0.0010 | 0.0017 |

The accompanying notes 1 to 29 from an integral part of these consolidated financial statements.
*Certain amounts do not correspond to the 2010 consolidated financial statement and reflect adjustments made as detailed in Note 3

**JSC TERRITORIAL GENERATING COMPANY №1 AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011**
*(in thousands of Russian Roubles)*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Treasury shares | Share premium | Merger reserve | Fair value reserve | Other reserves | Retained earnings | Total | Non - controlling interest | Total equity |
| **Balance at 1 January 2010** | **38 543 414** | **-** | **22 913 678** | **(6 086 949)** | **161 452** | | **12 929 217** | **68 460 812** | **-** | **68 460 812** |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 6 608 806 | **6 608 806** | **(92 046)** | **6 516 760** |
| **Other comprehensive income** | | | | | | | | | | |
| Net change in fair value of available-for-sale investments | - | - | - | - | (201 815) | - | - | **(201 815)** | **-** | **(201 815)** |
| Income tax on other comprehensive income | - | - | - | - | 40 363 | - | - | **40 363** | **-** | **40 363** |
| *Total other comprehensive income* | - | - | - | - | *(161 452)* | - | - | *(161 452)* | - | *(161 452)* |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **(161 452)** | **-** | **6 608 806** | **6 447 354** | **(92 046)** | **6 355 308** |
| **Transactions with owners** | | | | | | | | | | |
| Dividends | - | - | - | - | - | - | (168 314) | **(168 314)** | - | **(168 314)** |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **-** | **-** | **(168 314)** | **(168 314)** | **-** | **(168 314)** |
| **Balance at 31 December 2010 Restated*** | **38 543 414** | **-** | **22 913 678** | **(6 086 949)** | **-** | **-** | **19 369 709** | **74 739 852** | **(92 046)** | **74 647 806** |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit/(loss) for the year | - | - | - | - | - | - | 3 736 690 | **3 736 690** | **165 076** | **3 901 766** |
| **Other comprehensive income** | | | | | | | | | | |
| Income tax on other comprehensive income | - | - | - | - | - | - | - | - | - | - |
| *Total other comprehensive income* | - | - | - | - | - | - | - | - | - | - |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **-** | **3 736 690** | **3 736 690** | **165 076** | **3 901 766** |
| **Transactions with owners** | | | | | | | | | | |
| Property, plant and equipment as a contribution in a subsidiary's share capital (Note 1) | | | | | | (1 209 011) | - | **(1 209 011)** | **7 546 361** | **6 337 350** |
| Dividends | - | - | - | - | **-** | - | (180 347) | **(180 347)** | - | **(180 347)** |
| **Total transactions with owners** | **-** | **-** | **-** | **-** | **-** | **(1 209 011)** | **(180 347)** | **(1 389 358)** | **7 546 361** | **6 157 003** |
| **Balance at 31 December 2011** | **38 543 414** | **-** | **22 913 678** | **(6 086 949)** | **-** | **(1 209 011)** | **22 926 052** | **77 087 184** | **7 619 391** | **84 706 575** |

*Certain amounts do not correspond to the 2010 consolidated financial statement and reflect adjustments made as detailed in Note 3

| | Year ended 31 December 2011 | Year ended 31 December 2010 Restated* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | 5 286 063 | 8 262 012 |
| *Adjustments for:* | | |
| Depreciation of property, plant and equipment | 4 674 793 | 3 300 468 |
| Amortisation of intangible assets | 144 971 | 83 119 |
| Impairment loss recognised during the year | 27 417 | 42 698 |
| Impairment loss reversed during the year | - | (4 007 001) |
| Finance (income)/expense, net | 1 731 112 | 122 395 |
| Change in provision for impairment of accounts receivable | 695 603 | 891 660 |
| (Gain)/loss on disposal of property, plant and equipment | 69 689 | 122 908 |
| Loss on disposal of non-core assets | 4 670 | 37 854 |
| Loss from sale of investments | - | (212 411) |
| Change in provision for impairment of inventories | (28 818) | 27 881 |
| (Decrease)/increase of post-employment benefits obligations | (36) | 118 867 |
| Other non-cash items | 48 011 | 9 800 |
| **Operating cash flows before working capital changes** | **12 653 475** | **8 800 250** |
| (Increase)/decrease in trade and other receivables | (4 541 907) | 155 071 |
| (Increase)/decrease in inventories | (343 555) | (467 387) |
| (Increase)/decrease in other non-current assets | (47 616) | 86 667 |
| Increase/(decrease) in trade and other payables | 2 098 391 | (1 798 903) |
| Increase/(decrease) in taxes payable | 171 248 | (53 788) |
| **Cash generated from operations** | **9 990 036** | **6 721 910** |
| Income taxes paid | (892 676) | (428 915) |
| Interest paid | (2 177 237) | (2 102 577) |
| **Net cash from operating activities** | **6 920 123** | **4 190 418** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (17 344 898) | (13 373 524) |
| Proceeds from sale of property, plant and equipment | 339 017 | 273 639 |
| Proceeds from sale of investments | - | 456 367 |
| Proceeds from repayments of promissory notes and loans | - | 108 556 |
| Purchases of shares | (2 600) | (28 300) |
| Interest received | 2 198 | 4 217 |
| **Net cash used in investing activities** | **(17 006 283)** | **(12 559 045)** |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 63 624 279 | 39 936 756 |
| Repayments of borrowings | (53 262 186) | (31 692 147) |
| Dividends paid to the Company's shareholders | (180 347) | (168 314) |
| **Net cash from financing activities** | **10 181 746** | **8 076 295** |
| Effect of exchange rate changes on cash and cash equivalents | 2 741 | (10 024) |
| **Cash and cash equivalents at the beginning of the year** | **277 218** | **579 574** |
| **Cash and cash equivalents at the end of the year** | **375 545** | **277 218** |

*Certain amounts do not correspond to the 2010 consolidated financial statement and reflect adjustments made as detailed in Note 3

## Note 1. The Group and its operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2011 for Open Joint-Stock Company (OJSC) Territorial Generating Company № 1( hereinafter "TGC-1", or the "Company") and its subsidiaries (the "Group").

The Company was incorporated and is domiciled in the Russian Federation. It is an open joint stock company and was established in accordance with Russian law.

"TGC-1" was established on 25 March 2005 as part of the restructuring of Russia's electricity sector in accordance with Board of Directors Resolution No. 181 of RAO UES of Russia (hereinafter "RAO UES") on 26 November 2004. The structure and founding principles of TGC-1 were adopted by the RAO UES Board of Directors of RAO UES on 23 April 2004 (Resolution No. 168).

The Group consists of the Company and the following subsidiaries. All Group companies are incorporated in the Russian Federation.

On 1 April 2011 OJSC St Petersburg Heating Grid realised an additional share issue. These shares were purchased by JSC TGC-1 and GUP TEC SPB. As a result of the transaction JSC TGC-1's share in OJSC St Petersburg Heating Grid decreased from 100.00% to 75.00%. GUP TEC SPB's share totaled 25.00%. On 24 February 2012, OJSC St Petersburg Heating Grid's share capital was officially registered.

GUP TEC SPB made a contribution of property, plant and equipment and construction in progress of fair value RUB 7 685 635 thousand in OJSC St Petersburg Heating Grid's share capital. The result of this transaction was recorded in equity as other reserves. On a date of contribution (1 April 2011) the non-controlling interest was calculated as 25.00% of the net assets of OJSC St Petersburg Heating Grid.

| Subsidiary | % of ownership as at 31 December | | Immediate parent |
|---|---|---|---|
| | 2011 | 2010 | |
| JSC Murmanskaya TPP | 90.34 | 90.34 | SC TGC-1 |
| OJSC St Petersburg Heating Grid | 75.00 | 100 | JSC TGC-1 (75.00%)<br>GUP TEC SPB (25.00%) |
| Kolskaya Heating Company LLC (founded on 17 June 2011) | 90.34 | - | JSC Murmanskaya TPP (100.00%) |

As the operator of 55 power plants, the Group is principally engaged in electricity and heat generation. The Group's generating assets are located in the North-West of Russia, in particular in St. Petersburg, the Leningrad region, the Murmansk region and in Karelia.

The Company's registered office is located at 6 Bronevaya Street, St Petersburg, Russia 198188.

## Note 2. Operating environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations, which contributes to the challenges faced by companies operating in the Russia.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management has determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. These standards also require recognition of impairment losses for property, plant and equipment that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

## Note 2. Operating environment of the Group (continued)

Russia's future economic development depends on external factors as well as domestic measures undertaken by the government aimed at promoting growth and to changing the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

*Government relations and current regulation*

As at 31 December 2011 and 2010 the Group was controlled by the Gazprom Group (51.79% stake) via its subsidiary Gazprom Energoholding LLC. The Group's other significant shareholder as at 31 December 2011 and 31 December 2010 was Fortum Power and Heat Oy (25.66% stake). The Gazprom Group is controlled by the Russian Federation government, which was the Group's ultimate controlling party of the Group as at 31 December 2011 and 2010.

The Group's customer base also includes a large number of state-controlled entities. Furthermore, the government also controls a number of the Group's suppliers of fuel and other materials.

The Russian government directly affects the Group's operations through the Federal Tariff Service ("FTS"), which regulates its wholesale energy purchases, and by the St Petersburg Tarrif and Leningrad Regional Tariff Service, which regulate its retail electricity and heat sales. The operations of all generating facilities are coordinated by OJSC System Operator of Unified Energy System, a state-controlled company.

Tariffs which the Group may charge for electricity and heat sales are governed by regulations specific to the electricity and heat industry and that apply to natural monopolies. Historically, such tariffs have been based on a "cost-plus" system, meaning the cost of service plus a margin.

As described in Note 26, the government's economic, social and other policies could have a material effect on Group operations.

*Financial condition*

As at 31 December 2011, the Group's current liabilities exceeded its current assets by RUB 5 255 039 thousand (as at 31 December 2010 the Group's current liabilities exceeded its current assets by RUB 2 685 658 thousand). Management plans to find the necessary financial resources to increase its current assets. Also the Group has already repaid part of its current borrowings in the first quarter of 2012 (see Note 29), obtained two long-term loans for a total amount of RUB 5 111 000 thousand and issued long-term bonds for a total amount of RUB 2 000 000 thousand to increase its current assets (see Note 29).

*Going concern*

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

## Note 3. Summary of Significant Accounting Polices

*Basis of preparation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the initial recognition of financial instruments based on fair value. 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.

## Note 3. Summary of Significant Accounting Polices (continued)

*Consolidated financial statements*

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to determine 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 on which 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 that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

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 the 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 group companies 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.

*Presentation currency*

These consolidated financial statements are presented in Russian Roubles (RUB), unless otherwise stated.

At 31 December 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (USD) was USD 1 = RUB 32.1961 (31 December 2010: USD 1 / RUB 30.4769), and between the Russian Rouble and the Euro (EUR): EUR 1 = RUB 41.6714 (31 December 2010: EUR 1 / RUB 40.3331).

## Note 3. Summary of Significant Accounting Polices (continued)

*Associates*

Associates are entities over which the Group has significant influence (directly or indirectly), 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 a share of the financial 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 the financial result of associates.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

*Classification of financial assets*

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity; and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition; and (ii) those classified as held for trading.

Trading investments are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities as trading investments if it intends to sell them within a short period after purchase, i.e. within six months. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term.

Financial assets that would meet the definition of loans and receivables may be reclassified if the Group intends and is able to hold these financial assets for the foreseeable future or until maturity.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, under this category. Management designates financial assets under this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the accounting policy for trading investments.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

## Note 3. Summary of Significant Accounting Polices (continued)

*Classification of financial assets (continued)*

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are carried at fair value.

*Classification of financial liabilities*

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives; and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as financial income or financial costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

*Initial recognition of financial instruments*

Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument. or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

*Derecognition of financial assets*

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

*Property, plant and equipment*

Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

At the time of the Group's establishment in 2005 property, plant and equipment were recorded at the carrying values determined in accordance with the IFRS at the date of their transfer to the Group by its predecessor entity RAO UES.

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 selling costs and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the profit or losses. An impairment loss recognised for an asset in prior periods is reversed if there has been a positive change in the estimates used to determine the asset's recoverable amount.

## Note 3. Summary of Significant Accounting Polices (continued)

*Property, plant and equipment (continued)*

Costs of minor repairs and maintenance are expensed when incurred. The 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 disposal of property, plant and equipment are included in profit or losses.

Social assets are not included in property, plant and equipment 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 of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. Depreciation commences on the date of acquisition, or for internally constructed assets, from the time the asset is completed and ready for use.

The estimated useful lives, in years, of assets by type of facility are as follows:

| Type of facility | Useful lives, years |
|---|---|
| Production buildings | 50 |
| Hydrotechnical buildings | 50 |
| Generating equipment | 20-30 |
| Heating networks | 25 |
| Other | 10-25 |

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated disposal costs, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

*Operating lease*

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or losses on a straight-line basis over the period of the lease. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

*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.

## Note 3. Summary of Significant Accounting Polices (continued)

*Intangible assets*

The Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them into use.

Intangible assets are amortised using the straight-line method over their useful lives:

| | Useful lives in years |
|---|---|
| Software licences | 2-15 |
| Capitalised internal software development costs | 2-15 |
| Other licences | 4-10 |

*Income taxes*

Income taxes have been provided for in the consolidated 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 tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

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

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 balances are measured at tax rates enacted or substantively enacted at the reporting date 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 profits will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual entities of the Group.

Deferred tax is not provided for the undistributed earnings of the subsidiaries, as the Group controls the subsidiaries' dividend policy and requires profits to be reinvested. Only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognised in these consolidated financial statements.

## Note 3. Summary of Significant Accounting Polices (continued)

*Inventories*

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

*Trade and other receivables*

Accounts receivable are recorded inclusive of VAT. 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 liquidity 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:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty is experiencing a significant financial difficulty as evidenced by its financial data that the Group has obtained;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, has significantly decreased as a result of deteriorating market conditions.

*Prepayments*

Prepayments are carried at cost less any 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 more than 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. Other prepayments offset when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

*Cash and cash equivalents*

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

## Note 3. Summary of Significant Accounting Polices (continued)

*Non-current assets classified as held for sale*

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

*Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded in equity as a share premium.

*Merger reserve*

Any difference between the carrying value of the net assets merged into the Group as a result of a transaction under common control, and the nominal value of any shares issued is recorded in equity, as a merger reserve.

*Dividends*

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared and approved before or on the reporting date. Dividends are disclosed in subsequent events note when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

*Value added tax*

Output value added tax (VAT) related to sales is payable to the tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for the impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Long-term input VAT is recorded upon initial recognition at its nominal amount. Any IAS 36-type impairment indicator, which would include a delay in cash flows beyond those initial expected, would result in impairment. The impairment would be the difference between the carrying amount (nominal) and the present value of the latest expected cash flows.

## Note 3. Summary of Significant Accounting Polices (continued)

*Trade and other payables*

Trade payables and accounts payable for capital construction are accrued when the counterparty performs its contractual obligations under the contract and are carried at amortised cost using the effective interest method.

*Borrowings*

Borrowings are carried at amortised cost using the effective interest method.

*Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale (a qualifying asset) are capitalised as part of the cost of that asset.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining acquiring a qualifying asset. Where this occurs, the actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised. The commencement date for capitalisation is when the Group (i) 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 ceases upon completion of all the activities necessary for preparing the qualifying asset for its intended use or sale.

Interest or other investment income is not deducted when calculating the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

*Provisions for liabilities and charges*

Provisions for liabilities and charges are non-financial liabilities of uncertain timing and amount. They are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

*Revenue recognition*

Revenue is recognised on the delivery of electricity and heat. Revenues from sales of non-utility goods are recognised at the point of transfer of risks and rewards of ownership of the goods. Revenues from sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Revenue amounts are presented exclusive of VAT. Revenues are measured at the fair value of the consideration received or receivable.

## Note 3. Summary of Significant Accounting Polices (continued)

*Pension and post-employment benefits*

In the normal course of business the Group contributes to the Russian Federation defined contribution state pension scheme defined by the Russian Federation on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group also operates defined benefit plans. For some of these plans the Group has a contract with a non-governmental pension fund, whilst the other plans are operated by the Group without engaging pension funds.

Cash paid by the Group to the solidarity account with the non-governmental pension fund is refundable to the Group until it is allocated to individual pensioners' bank accounts, and, on that basis, is accounted for by the Group as an asset (accounts receivable from the pension fund).

Defined benefit plans determine 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 consolidated 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 reporting date, together with adjustments for unrecognised actuarial gains or losses and past service cost. All defined benefit plans are considered to be fully unfunded. The defined benefit obligations are calculated using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related post-employment benefits.

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

*Environmental liabilities*

Liabilities for environmental remediation are recorded where there is a present obligation, the payment is probable and reliable estimates can be made.

*Earnings per share*

Earnings per share are determined by dividing the profit attributable to the Company's ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period.

*Offsetting*

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

*Segment reporting*

Operating segments are defined as types of operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The primary activity of the Group is production of electric and heat power and capacity. The Group generates its revenues from the generation of electricity and heat in the Russian Federation, so the Group holds assets in the same geographical area, i.e. the Russian Federation. The technology of electricity and heat production does not allow for the segregation of the electricity and heat segments (see Note 28).

## Note 3. Summary of Significant Accounting Polices (continued)

*Changes in presentation and correction of errors*

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Trade and other receivables as at 31 December 2010 were restated by RUB 820 522 thousand to reflect an increase in the impairment provision. This is considered to be a correction of an error and consequently this and other related balances were restated.

The Company has restated the 2010 Consolidated Statement of Comprehensive Income to reflect a reclassification of certain revenue and expense transactions. In 2011, the Company reviewed its contracts for the sale of electric power and purchases of electricity and believes that certain of these transactions are linked as they are performed only to comply with specific regulations in the Russian Federation utilities market. Consequently, in order to comply with the principles of IAS 18, management has determined that these activities should be presented net in the Consolidated Statement of Comprehensive Income rather than presenting separate sales and purchases. Therefore, the previously reported amounts of Revenue and Operating expenses for 2010 have been corrected.

The effect of these changes on consolidated financial statements is disclosed below.

The effect of these changes on the consolidated statement of financial position as at 31 December 2010 was as follows:

| Account | Previously reported | Correction | Restated |
|---|---|---|---|
| Deferred income tax assets | 592 472 | 164 104 | 756 576 |
| **Total non-current assets** | **100 252 477** | **164 104** | **100 416 581** |
| Trade and other receivables | 10 762 658 | (820 522) | 9 942 136 |
| **Total current assets** | **13 584 445** | **(820 522)** | **12 763 923** |
| **TOTAL ASSETS** | **114 021 246** | **(656 418)** | **113 364 828** |
| Retained earnings | 20 075 786 | (706 077) | 19 369 709 |
| **Equity attributable to the Company's owners** | **75 445 929** | **(706 077)** | **74 739 852** |
| Non-controlling interest | (141 705) | 49 659 | (92 046) |
| **TOTAL EQUITY** | **75 304 224** | **(656 418)** | **74 647 806** |
| **TOTAL EQUITY AND LIABILITIES** | **114 021 246** | **(656 418)** | **113 364 828** |

## Note 3. Summary of Significant Accounting Polices (continued)

*Changes in presentation and correction of errors (continued)*

The effect of these changes on the Consolidated Statement of Comprehensive Income for the year ended 31 December 2010 was as follows:

| Account | Previously reported | Correction | Restated |
|---|---|---|---|
| **Revenue** | | | |
| Sales of electricity | 31 101 477 | (3 617 074) | 27 484 403 |
| **Total revenue** | **54 103 891** | **(3 617 074)** | **50 486 817** |
| Operating expenses, net | (48 863 262) | 2 796 549 | (46 066 713) |
| **Total operating expenses** | **(44 898 959)** | **2 796 549** | **(42 102 410)** |
| **Operating profit** | **9 204 932** | **(820 522)** | **8 384 407** |
| **Profit before income tax** | **9 082 537** | **(820 522)** | **8 262 012** |
| Income tax expense | (1 909 359) | 164 107 | (1 745 252) |
| **Profit for the year** | **7 173 178** | **(656 418)** | **6 516 760** |
| **Total comprehensive income for the year** | **7 011 726** | **(656 418)** | **6 355 308** |
| **Profit is attributable to:** | | | |
| Owners of the Company | 7 201 814 | (593 008) | 6 608 806 |
| Non-controlling interests | (28 636) | (63 410) | (92 046) |
| **Profit for the year** | **7 173 178** | **(656 418)** | **6 516 760** |
| **Total comprehensive income is attributable to:** | | | |
| Owners of the Company | 7 040 362 | (593 008) | 6 447 354 |
| Non-controlling interests | (28 636) | (63 410) | (92 046) |
| **Total comprehensive income for the year** | **7 011 726** | **(656 418)** | **6 355 308** |
| Earnings per ordinary share for profit attributable to owners of the Company, basic and diluted (in Russian Roubles) | 0.0019 | | 0.0017 |

Effect of these changes on Consolidated Statement of Cash Flows for the year ended 31 December 2010 was as follows:

| Account | Previously reported | Correction | Restated |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | 9 082 537 | (820 522) | 8 262 012 |
| Change in provision for impairment of accounts receivable | 71 138 | 820 522 | 891 660 |
| **Net cash from operating activities** | **4 190 418** | **-** | **4 190 418** |

The management of the Group believes that the restated presentation provides more relevant and meaningful information about the changes in the financial performance of the Group.

IAS 1 requires that an additional opening consolidated statement of financial position should be presented when an entity makes a restatement or reclassification of comparative information. The restatement for the prior period resulting from the incorrect recording of the provision for impairment of accounts receivable had no material impact on the opening consolidated statement of financial position. The restatement to reclassify certain revenue and expense transactions impacted the 2010 Consolidated Statement of Comprehensive Income, but had no impact on the consolidated statement of financial position. Management concluded that it is sufficient for the Group to present information about the restatements and reclassifications only in the notes and to explain that the opening consolidated statement of financial position has not been impacted by the restatements or reclassifications. The omission of the additional opening consolidated statement of financial position is, in management’s view, not material.

## Note 4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and 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:

*Provision for impairment of property, plant and equipment*

At each reporting date the carrying amounts of the Group's property, plant and equipment and assets under construction are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

The recoverable amount of property, plant and equipment and assets under construction is the higher of an asset's fair value less costs to sell and its value in use. When such recoverable amount has declined below the carrying value, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in the consolidated statement of comprehensive income in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 7.

*Useful lives of property, plant and equipment*

The estimation of the useful life based on an item of property, plant and equipment is a matter of management's judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments for future depreciation rates.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2011 would be an increase of RUB 481 317 thousand or a decrease it by RUB 418 326 thousand (as at 31 December 2010: increase by RUB 320 702 thousand or decrease by RUB 295 306 thousand).

*Recoverability of accounts receivable*

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectibles of specific customer accounts deteriorated compared to previous period estimates. If there has been a deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates (see also Note 27).

*Pension obligation*

The principal actuarial assumptions used to calculate the defined benefit obligation as at 31 December 2011 are listed in Note 18.

*Deferred income tax asset recognition*

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable.

## Note 5. Adoption of New or Revised Standards and Interpretations

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

*Amendment to IAS 24, Related Party Disclosures* **(issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties.

*Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation; (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements; and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements.

IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation; (ii) to provide guidance on the acquiree’s share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination; and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.

IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks; (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired; (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect; and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period.

IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was adopted previously by the Group in its prior year’s financial statements). IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008). IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity’s financial instruments. and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset (“over-collateralised assets”); and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset (“under-collateralised assets”).

## Note 5. Adoption of New or Revised Standards and Interpretations (continued)

*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.

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

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

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

*IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),* 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. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

## Note 5. Adoption of New or Revised Standards and Interpretations (continued)

*IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

*IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),* 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. The Group is currently assessing the impact of the amended standard on its 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. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

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

## Note 5. Adoption of New or Revised Standards and Interpretations (continued)

*Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),* makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

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

*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 consolidated financial statements.

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

## Note 6. Balances and Transactions with Related Parties

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

Related parties include shareholders that have control or significant influence over the Company, and key management personnel, as well as companies that are controlled by the State.

As at 31 December 2011 and 31 December 2010 the Russian Government was the ultimate controlling party of the Group (Note 1), hence significant transactions with other state-controlled entities were disclosed as related party transactions in accordance with IAS 24 requirements.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions in the years ended at 31 December 2011 and 2010, and had significant outstanding balances as at 31 December 2011 and 31 December 2010 are detailed below.

## Note 6. Balances and Transactions with Related Parties (continued)

*Gazprom Group and its subsidiaries*

Transactions with Gazprom Group and its subsidiaries were as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| **Sales** | | |
| Sales of electricity | 498 172 | 211 694 |
| **Total sales** | **498 172** | **211 694** |
| **Purchases** | | |
| Purchases of electricity | (106 073) | (287 393) |
| Purchases of fuel | (23 120 999) | (20 001 192) |
| Interest expense | (42 455) | - |
| Other | (361 689) | (134 231) |
| **Total purchases** | **(23 631 216)** | **(20 422 816)** |

Balances with Gazprom Group subsidiaries at the end of the period were as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade and other receivables | 47 382 | 82 778 |
| Cash and cash equivalents | 2 | - |
| Accounts payable | 407 286 | 1 107 002 |
| Borrowings (bonds) | 2 352 182 | - |

*State-controlled entities*

In the normal course of business the Group enters into transactions with other entities under Government control. Prices for natural gas and heat electricity and heat are based on tariffs set by FTS, prices for electricity and capacity based on tariffs set by FTS and also based on competitive take-off on the wholesale electricity (capacity) market. Bank loans are obtained at market rates. Taxes are charged and paid under the Russian tax law.

The Group had the following significant transactions with State-controlled entities:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| **Sales** | | |
| Sales of heating | 11 750 374 | 7 476 816 |
| Sales of electricity | 5 820 592 | 7 037 850 |
| Other sales | 59 670 | 106 882 |
| **Total sales** | **17 630 636** | **14 621 548** |
| **Expenses** | | |
| Water usage expenses | (2 098 235) | (1 828 511) |
| Electricity purchases | (3 259) | (139 274) |
| Heat distribution | (533 499) | (869 163) |
| Interest expenses | (1 046 001) | (656 155) |
| Security services | (275 830) | (259 031) |
| Operating lease | (102 528) | (417 601) |
| Transportation expenses | (12 163) | (55 206) |
| Interest income | 442 | 46 |
| Other expenses | (974 092) | (796 142) |
| **Total expenses** | **(5 045 165)** | **(5 021 037)** |

## Note 6. Balances and Transactions with Related Parties (continued)

*State-controlled entities (continued)*

The Group had the following significant balances with State-controlled entities:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Cash and cash equivalents | 97 068 | 72 351 |
| Trade and other receivables | 6 079 512 | 3 161 721 |
| Borrowings | 19 163 395 | 11 221 191 |
| Trade and other payables | 1 120 672 | 750 068 |

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with CJSC Centre of Financial Settlements (CFS). CFS's current financial settlement system of CFS does not provide the final counterparty with automated information about transactions and settlement balances with end consumers. Government-related entities, Gazprom Group and its subsidiaries 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 | 22 343 553 | 14 758 242 |
| Electricity purchases | (6 473 299) | (7 566 059) |

The Group had the following significant balances with CFS:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade and other receivables | 846 384 | 876 992 |
| Trade and other payables | 401 980 | 416 758 |

*Transactions with other related parties*

Other related parties are mainly represented by the Company's shareholder Fortum Power and Heat OY.

The Group had the following significant transactions and balances with other related parties:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Sales of electricity | 1 082 095 | 979 407 |
| Development expenditures and repairs | (1 093 715) | - |

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade and other receivables | 85 525 | 89 458 |
| Accounts payable | (598 144) | - |

Transactions and balances with the non-state pension fund of the electrical energy industry are disclosed in Note 18.

As at 31 December 2011, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment connected to related parties in the amount of RUB 689 506 thousand (31 December 2010: RUB 266 238 thousand).

## Note 6. Balances and Transactions with Related Parties (continued)

*Transactions with other related parties (continued)*

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| State-controlled entities | 567 263 | 224 242 |
| Other related parties | 122 244 | 41 996 |
| **Total** | **689 506** | **266 238** |

*Transactions with the Board of Directors and key management personnel*

Total remuneration in the form of salary and bonuses paid to the members of the Board of Directors and key management personnel for the year ended 31 December 2011 was RUB 161 671 thousand (2010: RUB 129 436 thousand). All remuneration falls under the definition of short-term employee benefits definition in IAS 19 “Employee Benefits”.

## Note 7. Property, Plant and Equipment

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

| Cost | Production buildings | Hydrotechnical buildings | Generating equipment | Heating networks | Construction in progress | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2010** | **17 576 894** | **16 644 373** | **28 521 382** | **31 453 991** | **31 415 949** | **20 414 722** | **146 027 311** |
| Effect of reclassifications | (70 178) | (1) | 2 726 936 | (186 256) | 4 | (2 470 505) | - |
| **Balance as at 31 December 2010** | 17 506 716 | 16 644 372 | 31 248 318 | 31 267 735 | 31 415 953 | 17 944 217 | 146 027 311 |
| Additions | 589 859 | - | 85 029 | 6 895 464 | 18 597 517 | 485 607 | 26 653 476 |
| Transfers | 2 741 616 | 38 761 | 13 712 084 | 1 136 776 | (25 455 588) | 7 826 351 | - |
| Disposals | (59 631) | (2 552) | (71 687) | (51 987) | (178 925) | (80 724) | (445 506) |
| Reclassification to non-current assets held for sale | (45 710) | (17 868) | (6 087) | - | - | (89 598) | (159 263) |
| **Balance as at 31 December 2011** | **20 732 850** | **16 662 713** | **44 967 657** | **39 247 988** | **24 378 957** | **26 085 853** | **172 076 018** |
| **Accumulated depreciation (including impairment)** | | | | | | | |
| **Balance as at 31 December 2010** | **(5 271 431)** | **(6 972 277)** | **(8 083 841)** | **(15 244 018)** | **(46 946)** | **(11 389 277)** | **(47 007 790)** |
| Effect of reclassifications | 1 081 | (1) | (2 433 252) | 31 744 | - | 2 400 428 | - |
| **Balance as at 31 December 2010** | (5 270 350) | (6 972 278) | (10 517 093) | (15 212 274) | (46 946) | (8 988 849) | (47 007 790) |
| Charge for the year | (797 688) | (277 767) | (1 394 014) | (1 123 612) | - | (1 081712) | (4 674 793) |
| Disposals | 17 552 | 1 886 | 65 273 | 30 846 | - | 65 624 | 181 181 |
| Reclassification to non-current assets held for sale | 21 765 | 12 081 | 3 949 | - | - | 70 955 | 108 750 |
| Impairment losses recognised during the year | (6 207) | - | (480) | - | (12 370) | (8 360) | (27 417) |
| **Balance as at 31 December 2011** | **(6 034 928)** | **(7 236 078)** | **(11 842 365)** | **(16 305 040)** | **(59 316)** | **(9 942 342)** | **(51 420 069)** |
| **Net book value as at 31 December 2010** | **12 236 366** | **9 672 094** | **20 731 225** | **16 055 461** | **31 369 007** | **8 955 368** | **99 019 521** |
| **Net book value as at 31 December 2011** | **14 697 922** | **9 426 635** | **33 125 292** | **22 942 948** | **24 319 641** | **16 143 511** | **120 655 949** |

## Note 7. Property, Plant and Equipment (continued)

| Cost | Production buildings | Hydrotechnical buildings | Generating equipment | Heating networks | Construction in progress | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2009** | **15 028 980** | **16 632 842** | **19 071 275** | **30 269 991** | **34 727 285** | **17 933 131** | **133 663 504** |
| Additions | 4 149 | 4 828 | 38 107 | 50 050 | 13 578 543 | 194 427 | 13 870 104 |
| Transfers | 2 559 100 | 6 703 | 9 447 367 | 2 005 538 | (16 796 204) | 2 777 496 | - |
| Disposals | (15 335) | - | (2 035) | (871 588) | (93 675) | (298 138) | (1 280 771) |
| Reclassification to non-current assets held for sale | - | - | (33 332) | - | - | (192 194) | (225 526) |
| **Balance as at 31 December 2010** | **17 576 894** | **16 644 373** | **28 521 382** | **31 453 991** | **31 415 949** | **20 414 722** | **146 027 311** |
| **Accumulated depreciation (including impairment)** | | | | | | | |
| **Balance as at 31 December 2009** | **(4 789 906)** | **(6 499 637)** | **(7 398 212)** | **(18 963 038)** | **(56 439)** | **(10 993 634)** | **(48 700 866)** |
| Charge for the year | (707 352) | (472 640) | (724 021) | (673 308) | - | (723 147) | (3 300 468) |
| Disposals | 1 647 | - | 12 657 | 745 100 | - | 228 635 | 988 039 |
| Reclassification to non-current assets held for sale | - | - | 3 228 | - | - | 37 974 | 41 202 |
| Impairment losses reversed during the year | 224 180 | - | 42 014 | 3 676 816 | - | 63 991 | 4 007 001 |
| Impairment losses recognised during the year | - | - | (19 507) | (29 588) | 9 493 | (3 096) | (42 698) |
| **Balance as at 31 December 2010** | **(5 271 431)** | **(6 972 277)** | **(8 083 841)** | **(15 244 018)** | **(46 946)** | **(11 389 277)** | **(47 007 790)** |
| **Net book value as at 31 December 2009** | **10 239 074** | **10 133 205** | **11 673 063** | **11 306 953** | **34 670 846** | **6 939 497** | **84 962 638** |
| **Net book value as at 31 December 2010** | **12 305 463** | **9 672 096** | **20 437 541** | **16 209 973** | **31 369 003** | **9 025 445** | **99 019 521** |

## Note 7. Property, Plant and Equipment (continued)

Construction in progress represents the carrying amount of property, plant and equipment that has not yet been made available for use in production, including generating stations under construction.

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

As at 31 December 2011 the advances given to contractors, which amounted to RUB 2 004 201 thousand, net of VAT (as at 31 December 2010: RUB 2 749 378 thousand), are recognised within the construction in progress balance. The respective input VAT is recognised within other non-current assets balance (see Note 10) and within accounts receivable and prepayments (see Note 14).

As at 31 December 2011 and 2010 The Group had no property, plant and equipment pledged as collateral according to loan agreements.

The total amount of capitalised interests that were calculated using a 7% capitalization rate for the year ended 31 December 2011 is RUB 699 099 thousand (for the year ended 31 December 2010: RUB 1 893 917 thousand).

Included in other property, plant and equipment are assets held under finance leases with a carrying value of RUB 117 606 thousand (as at 31 December 2010: RUB 0 thousand).

### *Impairment*

As described in Note 3, management determined whether there was any indication of impairment of the Group's property, plant and equipment as at 31 December 2011.

The determination of indication of impairment was performed through six cash-generating units: the Thermal Power Plants (TPP) of the Nevsky branch, the Hydro-electric Power Stations (HPS) of the Nevsky branch, the Heating Network, Kolsky, and Karelsky branches and the Murmanskaya TPP.

There was no indication of impairment for any cash-generating units except for the Murmanskaya TPP. Management recognised an additional impairment loss in the property, plant and equipment of the Murmanskaya TPP in the amount of RUB 27 417 thousand (as at 31 December 2010: RUB 42 698 thousand).

In 2010 management considered recent changes in operation of the Russian electricity market and reassessed recoverable amount of the Group's property, plant and equipment as at 31 December 2010. As a result, provision for impairment of property, plant and equipment previously recorded by the Group in respect of Heating Network of Nevsky branch was reversed as at 31 December 2010. The amount of reversal was estimated by management as RUB 4 007 001 thousand.

The indexes used by management in forecasting the future cash flows are based on the Parameters of Forecasting Social and Economic Development of the Russian Federation for 2011 and the 2012 - 2014 Planning Period, approved by the Government of the Russian Federation in September 2010 and the parameters of the Forecasting Agency that specialises in forecasting balances in the electricity sector.

## Note 7. Property, Plant and Equipment (continued)

*Impairment (continued)*

Management made the following significant assumptions when estimating the value in use of property, plant and equipment and determining the levels of impairment provisions as at 31 December 2011:

- The average remaining useful lives have been estimated by management for separate cash generating units on the basis of a report by a consortium of independent appraisers as at 31 December 2006 and taking into account the latest capital investment programme of the Group, as follows:

| Name of cash generating unit | Pre-tax discount rate, % p.a. | Average remaining useful lives, years |
|---|---|---|
| Kolsky branch | 15.62 | 23 |
| Karelsky branch | 15.14 | 22 |
| Nevsky branch HPS | 15.35 | 24 |
| Nevsky branch TPP | 15.03 | 21 |
| Heating Network | 15.20 | 19 |
| Murmanskaya TPP | 13.42 | 10 |

However, the calculation of the recoverable amounts from cash-generating units is highly sensitive to the pre-tax discount rate. If the pre-tax discount rate was 1 percent higher in the forecasted period, there would be an impairment loss of RUB 1 869 328 thousand recognised as at 31 December 2011 (as at 31 December 2010: RUB 752 979 thousand).

In management's opinion, the existing provision represents the best estimate of the impact of impairment as a result of the current economic conditions affecting the Group.

## Note 8. Investments in Associates

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Investments in LLC TGC-1 Service | 2 600 | - |
| Investments in OJSC Hibinskaya TPP | 48 300 | 48 300 |
| Other | - | 10 |
| **Total investments** | **50 900** | **48 310** |

As at 31 December 2011 and as at 31 December 2010 the Group owned 50% of OJSC Hibinskaya TPP. As at 31 December 2011 the Group owned 26% of LLC TGC-1 Service.

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

| Name | Total assets | Total liabilities | Revenue | Profit/(loss) | % interest held | Country of incorporation |
|---|---|---|---|---|---|---|
| LLC TGC-1 Service | 798 916 | 746 851 | 1 271 476 | 45 470 | 26% | Russia |
| OJSC Hibinskaya TPP | 612 815 | 515 728 | - | 1 489 | 50% | Russia |
| **Total** | **1 411 731** | **1 262 579** | **1 271 476** | **46 959** | | |

## Note 8. Investments in Associates (continued)

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

| Name | Total assets | Total liabilities | Revenue | Profit/(loss) | % interest held | Country of incorporation |
|---|---|---|---|---|---|---|
| LLC TGC-1 Service | - | - | - | (6) | 26% | Russia |
| OJSC Hibinskaya TPP | 102 742 | 7 144 | - | (1.006) | 50% | Russia |
| Other | 9 | 9 | - | (1) | 100% | Russia |
| **Total** | **102 751** | **7 153** | **-** | **(1 013)** | | |

## Note 9. Income Taxes

Income tax expense comprises the following:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Current income tax charge | (30 679) | (702 482) |
| Deferred income tax charge | (1 353 618) | (1 042 770) |
| **Income tax charge** | **(1 384 297)** | **(1 745 252)** |

All companies of the Group were subject to tax rates of 20% on taxable profits in the Russian Federation for 2011 and 2010. Reconciliation between the expected and the actual taxation charge is provided below:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| **Profit before tax** | **5 286 063** | **8 262 012** |
| Theoretical tax charge at the statutory tax rate of 20% | (1 057 213) | (1 652 400) |
| Tax effects of items which are non-deductible for income tax purposes | (264 617) | (92 852) |
| Income tax provision charge | (62 467) | - |
| **Income tax charge** | **(1 384 297)** | **(1 745 252)** |

*Deferred income tax assets and liabilities*

Differences between IFRS and Russian statutory taxation regulations cause temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities were measured at a rate of 20% as at 31 December 2011 and 2010, which is expected to be applied to the period when the assets are realised and liabilities are settled.

## Note 9. Income Taxes (continued)

*Deferred income tax assets and liabilities (continued)*

In the context of the Group's current structure, the tax losses and current tax assets of different consolidated entities may not be offset against the current tax liabilities and taxable profits of other consolidated entities and, accordingly, taxes may accrue 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.

| Deferred income tax liabilities: | 31 December 2011 | Recognised in profit or losses | Recognised in equity | 31 December 2010 |
|---|---|---|---|---|
| Property, plant and equipment | (8 357 223) | (1 136 507) | (1 396 294) | (5 824 422) |
| Investments | 2 061 | (844) | - | 2 905 |
| Trade and other receivables | (503 682) | (258 951) | - | (244 731) |
| Trade and other payables | 219 402 | 40 766 | - | 178 636 |
| Long-term loans | (1 016) | 43 059 | - | (44 075) |
| Other | 21 478 | (12 954) | - | 34 432 |
| **Total deferred income tax liability** | **(8 618 980)** | **(1 325 431)** | **(1 396 294)** | **(5 897 255)** |

| Deferred income tax liabilities: | 31 December 2010 | Recognised in profit or losses | Recognised in other comprehensive income | 31 December 2009 |
|---|---|---|---|---|
| Property, plant and equipment | (5 824 422) | (1 226 017) | - | (4 598 405) |
| Investments | 2 905 | 1 886 | 40 363 | (39 344) |
| Trade and other receivables | (244 731) | (76 666) | - | (168 065) |
| Trade and other payables | 178 636 | 5 928 | - | 172 708 |
| Tax loss carried forward | - | (1 727) | - | 1 727 |
| Long-term loans | (44 075) | 238 | - | (44 313) |
| Other | 34 432 | 20 027 | - | 14 405 |
| **Total deferred income tax liability** | **(5 897 255)** | **(1 276 331)** | **40 363** | **(4 661 287)** |

| Deferred income tax assets | 31 December 2011 | Recognised in profit or losses | 31 December 2010 |
|---|---|---|---|
| Property, plant and equipment | 121 633 | (9 715) | 131 348 |
| Tax loss carried forward | 418 147 | 6 946 | 411 201 |
| Trade and other receivables | 163 534 | (10 339) | 173 873 |
| Trade and other payables | 24 833 | (12 113) | 36 946 |
| Other | 242 | (2 966) | 3 208 |
| **Total deferred income tax assets** | **728 389** | **(28 187)** | **756 576** |

## Note 9. Income Taxes (continued)

*Deferred income tax assets and liabilities (continued)*

| Deferred income tax assets | 31 December 2010 | Recognised in profit or losses | 31 December 2009 |
|---|---|---|---|
| Property, plant and equipment | 131 348 | (2 273) | 133 621 |
| Tax loss carried forward | 411 201 | 100 393 | 310 808 |
| Trade and other receivables | 173 873 | 111 320 | 62 553 |
| Trade and other payables | 36 946 | 23 114 | 13 832 |
| Other | 3 208 | 1 004 | 2 204 |
| **Total deferred income tax assets** | **756 576** | **233 558** | **523 018** |

## Note 10. Other Non-Current Assets

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Long-term receivables (interest free) | 4 127 | 7 479 |
| Loan issued | 20 010 | 24 003 |
| Promissory notes | 1 051 | 8 892 |
| **Total financial receivables** | **25 188** | **40 374** |
| Intangible assets | 448 505 | 458 420 |
| VAT in prepayments on capital construction | 31 034 | 93 380 |
| **Total other non-current assets** | **504 727** | **592 174** |

Intangible assets primarily comprise information and accounting systems purchased by the Group from third party vendors.

## Note 11. Cash and Cash Equivalents

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Cash in bank and in hand in RUB | 303 902 | 179 629 |
| Foreign currency accounts in Euro | 71 643 | 97 589 |
| **Total cash and cash equivalents** | **375 545** | **277 218** |

## Note 12. Short-term Investments

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Loan issued | 5 847 | 6 201 |
| **Total short-term investments** | **5 847** | **6 201** |

## Note 13. Non-current Assets Held for Sale

As at 31 December 2011 the property, plant and equipment with a total net book value amounting to RUB 50 512 thousand were classified as assets held for sale (31 December 2010: RUB 184 324 thousand). According to Resolution No.2, adopted by the Board of Directors on 1 August 2011, there are plans to sell assets with a net book value of RUB 25 858 thousand for RUB 703 000 thousand. According to Resolution No.11, adopted by the Board of Directors on 27 December 2011, there are plans to sell assets with a net book value of RUB 7 925 thousand for RUB 43 360 thousand. According to Resolution No.15, adopted by the Board of Directors on 11 March 2012, there are plans to sell assets with a net book value of RUB 16 729 thousand for RUB 67 797 thousand.

## Note 14. Trade and other receivables

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade receivables, net of provision for impairment of RUB 2 008 002 (31 December 2010: RUB 1 296 551) | 9 671 241 | 8 336 681 |
| Other receivables, net of provision for impairment of RUB 0 (31 December 2010: RUB 30 400) | 222 826 | 213 531 |
| **Total financial receivables** | **9 894 067** | **8 550 212** |
| Value-added tax receivables | 2 057 122 | 1 293 818 |
| Advances to suppliers | 165 337 | 55 828 |
| Other taxes receivable | 541 071 | 42 278 |
| **Total trade and other receivables** | **12 657 597** | **9 942 136** |

Total financial receivables by customer type are presented in the table below:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Domestic customers | 7 053 203 | 6 109 390 |
| Wholesale customers | 1 892 652 | 1 483 423 |
| Free market | 846 384 | 820 633 |
| Export customers | 101 828 | 136 766 |
| **Total** | **9 894 067** | **8 550 212** |

Total financial receivables on a contract basis as at the reporting date are presented in the table below:

| | Fully performing | Past due but not impaired | Impaired |
|---|---|---|---|
| Total financial receivables as at 31 December 2011 | 5 578 553 | 4 315 514 | 2 008 002 |
| Total financial receivables as at 31 December 2010 | 5 114 868 | 3 435 344 | 1 326 951 |

Fully performing trade receivables involve a number of independent customers who have no recent history of default. Individually insignificant end-user customers make up the majority of performing trade receivables; therefore the credit risk is widely spread.

Past due but not impaired financial receivables have the following ageing structure:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Up to 45 days | 1 084 021 | 2 306 644 |
| From 45 to 90 days | 344 096 | 321 486 |
| More than 90 days | 2 887 397 | 807 214 |
| **Total** | **4 315 514** | **3 435 344** |

Movements in impairment provision for financial receivables are as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| **Provision for impairment as at 1 January** | **1 326 951** | **487 466** |
| Impairment loss recognised during the period | 925 274 | 946 660 |
| Impairment loss reversed during the period | (243 099) | (83 984) |
| Consumed | (1 124) | (23 191) |
| **Provision for impairment as at 31 December** | **2 008 002** | **1 326 951** |
| Account receivable directly written-off to profit and loss | 13 429 | 28 984 |

## Note 15. Inventories

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Fuel | 1 969 934 | 1 710 532 |
| Spare parts | 472 969 | 388 318 |
| Raw materials and other supplies | 469 766 | 439 518 |
| **Total inventories** | **2 912 669** | **2 538 368** |

Raw materials and other supplies are recorded net of provision for impairment in the amount of RUB 5 430 thousand (31 December 2010: RUB 34 248 thousand).

## Note 16. Share capital

*Share capital*

The Group's share capital as at 31 December 2011 and as at 31 December 2010 was RUB 38 543 414 thousand comprising 3 854 341 416 571 ordinary shares with a par value of RUB 0.01. All shares authorised are issued and fully paid.

*Share premium*

Share premium means the excess of contributions received over the nominal value of shares issued.

*Merger reserve*

As at 31 December 2011 and as at 31 December 2010 the merger reserve amounted to RUB 6 086 949 thousand.

*Dividends*

All dividends are declared and paid in Russian Roubles. In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared under Russian Accounting Rules. The Company’s statutory accounting reports form the basis for profit distribution and other appropriations. Russian legislation identifies net profit as the basis for distribution. For 2011, the current year statutory net profit for the Company, as reported in the published annual statutory reporting forms, was RUB 3 757 318 thousand (2010: RUB 3 613 163 thousand) and the closing balance of the accumulated loss including the current year statutory net profit totaled RUB 1 123 429 thousand (31 December 2010: RUB 8 583 189 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

At the General Shareholders’ Meeting held on 27 June 2011, the decision was made to pay a total of RUB 180 347 thousand in annual dividends for 2010 (2010: RUB 168 314 thousand for 2009).

## Note 17. Long-term Borrowings

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Finance lease liabilities (non-current portion) | 25 331 | - |
| Bank borrowings and bonds issued | 22 442 415 | 16 294 201 |
| **Total long-term borrowings** | **22 467 746** | **16 294 201** |

| | Currency | Effective interest rate | Maturity | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|---|
| Long-term bonds | RUB | 6.7% | 2014 | 2 894 187 | 5 000 000 |
| Long-term bonds | RUB | 8.5% | 2014 | 1 138 422 | 923 126 |
| Long-term bonds | RUB | 10.3% | 2021 | 2 000 000 | - |
| NORDIC Investment Bank | Euro | EURIBOR + 3% | 2014 | 480 825 | 651 535 |
| Nordic Environment Finance Corporation | Euro | EURIBOR + 2% | 2015 | 72 925 | 90 750 |
| AB Russia | RUB | 7% | 2013 | 1 200 000 | 1 200 000 |
| TransCreditBank | RUB | 8.5% | 2014 | 4 535 429 | 1 969 405 |
| Barclays bank | RUB | 6.9% | 2011 | - | 1 000 000 |
| VTB | RUB | 6.7-9.40% | 2013-2016 | 4 676 500 | 4 700 600 |
| Sberbank RF | RUB | 6.7-9.45% | 2013 | 8 200 000 | 3 700 000 |
| Unicreditbank | RUB | 6.7% | 2013 | 2 804 505 | 1 124 505 |
| Alfabank | RUB | 6.7% | 2012 | 2 000 000 | 2 000 000 |
| AKB MBRR | RUB | 6.7% | 2013 | 600 000 | - |
| AKB ROSBANK | RUB | 5.9-9.5% | 2013 | 1 982 610 | - |
| | | | | **32 585 403** | **22 359 921** |
| Less: current portion | | | | | |
| Long-term bonds issued | RUB | 6.7% | 2014 | - | (5 000 000) |
| Long-term bonds issued | RUB | 8.5% | 2014 | (1 138 422) | - |
| NORDIC Investment Bank | Euro | EURIBOR + 3% | 2012 | (192 330) | (186 153) |
| Nordic Environment Finance Corporation | Euro | EURIBOR + 2% | 2012 | (20 836) | (20 167) |
| VTB | RUB | 6.7% | 2012 | (1 200 000) | (859 400) |
| AKB ROSBANK | RUB | 5.9% | 2012 | (211 400) | - |
| Alfabank | RUB | 6.7% | 2012 | (2 000 000) | - |
| Unicreditbank | RUB | 6.7% | 2012 | (1 680 000) | - |
| Sberbank RF | RUB | 6.7% | 2012 | (3 700 000) | - |
| **Total long-term bank borrowings and bonds issued** | | | | **22 442 415** | **16 294 201** |

On 27 December 2011, the Group issued 2 000 000 bonds at a nominal value of for RUB 1 000 per bond, with a coupon rate of 10.3%, maturing in 2021.

*Compliance with covenants*

Under long-term borrowings facility agreements, the Group is required to comply with certain financial and non-financial covenants. The most significant and most important of these being:

- to maintain particular ratios, i.e. the EBITDA to Finance Charges, the total debt to equity and the Current Ratio;
- to maintain certain liquidity and debt-to-assets ratio.

If any of these covenants are breached, the repayment can be altered by the respective lender, up to immediate repayment. There is no indication the Group is at risk of breaching the covenants.

## Note 18. Post-Employment Benefits Obligations

The Group operates defined benefit and defined contribution pension plans. The Group has a contract with the "Non-state pension fund of the electrical energy industry" ("NPFE"), a separate legal entity, for some of these pension plans. The Group runs the other plans independently of external pension funds. Defined contribution pension plans are considered immaterial for disclosure.

Through the NPFE, the defined benefit pension plan provides for the payment, on retirement, of monthly pension benefits. The Group makes annual contributions to the solidarity account in the non-state pension fund. Contribution size is defined by the Group's budget and is considered to be at least enough to finance running pension benefits. No part of this contribution is recognised as plan asset as far as the Group can recall this money. Pension benefits are paid from the solidarity account on a "pay-as-you-go" basis.

In addition to the NPFE pension plan, the Group provides defined-benefit financial support to old-age pensioners, who have completed certain service periods with the Group, and other post-employment benefits such as lump-sum payments on retirement, lump-sum financial aid, etc.

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

Amounts recognised in the consolidated statement of financial position:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Defined benefit obligations | 821 946 | 919 323 |
| Present value of unfunded obligations | 821 946 | 919 323 |
| Unrecognised net actuarial losses | 130 330 | 36 637 |
| Unrecognised past service cost | (60 651) | (64 299) |
| **Net liability on the balance sheet** | **891 625** | **891 661** |

Amounts recognised in the consolidated statement of comprehensive income:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Current service cost | 53 703 | 62 743 |
| Interest cost | 74 421 | 85 105 |
| Past service cost | 11 781 | 1 929 |
| Actuarial losses on obligation | (8 710) | (5 994) |
| Termination benefits | (50 835) | 139 750 |
| **Total** | **80 360** | **283 533** |

Changes in the present value of the Group's defined benefit obligations are as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Benefit obligations as at the beginning of the period | 919 323 | 1 043 001 |
| Current service cost | 53 703 | 62 743 |
| Interest cost | 74 421 | 85 105 |
| Past service cost | 8 133 | (89 209) |
| Benefits paid | (80 396) | (79 100) |
| Actuarial losses | (153 238) | (103 217) |
| **Benefit obligations as at the end of the period** | **821 946** | **919 323** |

The principal actuarial estimates are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Discount rate for benefits at accumulation phase | 8.30% | 8.00% |
| Future salary increase | 7.10% | 7.50% |
| Future inflation rate | 5.60% | 6.00% |

## Note 19. Short-Term Borrowings

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Finance lease liabilities (current portion) | 47 618 | - |
| Bank borrowings and bonds issued | 11 351 818 | 6 905 720 |
| **Total short-term borrowings** | **11 399 436** | **6 905 720** |

| Name of lender | Currency | Effective interest rate | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|
| VTB | RUB | 6.21-11.94% | 1 208 830 | 840 000 |
| **Current portion of long-term borrowings:** | | | | |
| *Long-term bonds issued* | *RUB* | 6.7% | - | *5 000 000* |
| *Long-term bonds issued* | *RUB* | 8.5% | *1 138 422* | - |
| Nordic Environment Finance Corporation | Euro | EURIBOR+2.00% | 20 836 | 20 167 |
| NORDIC Investment Bank | Euro | EURIBOR+3% | 192 330 | 186 153 |
| VTB | RUB | 6.7% | 1 200 000 | 859 400 |
| AKB ROSBANK | RUB | 5.9% | 211 400 | - |
| Alfabank | RUB | 6.7% | 2 000 000 | - |
| Unicreditbank | RUB | 6.7% | 1 680 000 | - |
| Sberbank RF | RUB | 6.7% | 3 700 000 | - |
| **Total bank borrowings and bonds issued** | | | **11 351 818** | **6 905 720** |

## Note 20. Trade and other payables

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Trade accounts payable | 3 671 020 | 3 403 848 |
| Accounts payable for capital construction | 3 272 017 | 2 428 919 |
| Accrued liabilities and other payables | 469 772 | 364 329 |
| Interest accrued on loans | 99 990 | 56 445 |
| **Total financial payables** | **7 512 799** | **6 253 541** |
| Advances from customers | 990 771 | 1 115 330 |
| Employee benefits | 528 776 | 342 271 |
| **Total trade and other payables** | **9 032 346** | **7 711 142** |

## Note 21. Other Taxes Payable

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| VAT payable | 340 979 | 233 811 |
| Property tax | 255 043 | 174 375 |
| Employee taxes | 72 480 | 54 429 |
| Personal Income Tax | 47 914 | 45 074 |
| Water usage tax | 13 553 | 13 643 |
| Other taxes | 13 046 | 50 761 |
| **Total taxes Payable** | **743 015** | **572 093** |

As at 31 December 2011 and as at 31 December 2010 the Group had no past due tax liabilities.

## Note 22. Operating Expenses, net

| | Note | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|---|
| Fuel | | 24 893 005 | 21 636 975 |
| Employee benefits | | 6 381 293 | 5 517 651 |
| Electricity and heat purchases | | 5 939 366 | 5 086 352 |
| Depreciation of property, plant and equipment | | 4 674 793 | 3 300 468 |
| Repairs and maintenance | | 2 831 077 | 1 879 363 |
| Water usage expenses | | 2 098 235 | 1 880 446 |
| Taxes other than income tax | | 1 175 910 | 1 068 364 |
| Dispatcher's fees | | 785 307 | 638 138 |
| Provision for impairment of accounts receivable | | 695 603 | 891 660 |
| Other materials | | 575 677 | 374 080 |
| Heat distribution | | 533 499 | 869 163 |
| Lease expenses | | 216 678 | 557 760 |
| Insurance cost | | 196 303 | 218 229 |
| Amortisation of intangible assets | | 144 971 | 83 119 |
| (Gain)/Loss on disposal of property, plant and equipment | | 69 689 | 122 908 |
| Loss from sale of investments | | - | (212 411) |
| (Reversal of provision)/provision for inventory obsolescence | | (28 818) | 27 881 |
| Other operating income | | (626 402) | (188 921) |
| Other operating expenses | | 2 650 982 | 2 315 488 |
| **Total operating expenses, net** | | **53 207 168** | **46 066 713** |

Employee benefits are generally presented by wages and salaries.

## Note 23. Finance income and finance costs

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Interest income | 2 198 | 4 165 |
| Gain from disposal of banks' promissory notes | - | 4 015 |
| Exchange differences (net) | - | 80 601 |
| Effect of discounting | 17 496 | - |
| **Finance income** | **19 694** | **88 781** |
| | | |
| Interest expense | (1 521 854) | (205 581) |
| Exchange differences (net) | (13 637) | - |
| Effect of discounting | (215 315) | (5 595) |
| **Finance costs** | **(1 750 806)** | **(211 176)** |

## Note 24. Earnings per Share

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Profit is attributable to owners of the Company | 3 736 690 | 6 608 806 |
| Weighted average number of ordinary shares issued (thousands) | 3 854 341 417 | 3 854 341 417 |
| **Earnings per ordinary share attributable to the owners of the Company after tax – basic and diluted – in Russian Roubles** | 0.0010 | 0.0017 |

## Note 25. Commitments

*Sales commitments*

The Group entities sell electricity and capacity in the wholesale market's regulated and free trading sectors. Regulated sector contracts are primarily signed with trading companies. Tariffs for electricity and capacity sold under regulated delivery contracts are set by the FTS. Electricity can be bought in the free trading sector under contracts with CJSC FSC in order to fulfil obligations under regulated contracts.

Long-term contracts with CJSC FSC and short-term bilateral contracts with market entities were concluded for electricity and capacity sales (not covered by regulated contracts) in the free trading market.

The Group also concluded two export contracts with Fortum Power and Heat OY and Scaent Europower. The Group's sales commitments under these contracts, as at 31 December 2011, were: between 150 GW/h and 700 GW/h for Fortum Power and Heat OY and 745 million KW/h for Scaent Europower.

*Fuel commitments*

The Group has also concluded a number of fuel supply contracts. The main gas supplier is CJSC Gazprom mezhregiongaz St Petersburg (a state controlled subsidiary of Gazprom Group) and the main coal supplier is OJSC Plant Polymer. The prices for natural gas and coal set in these contracts are mainly determined on the basis of tariffs established by the FTS, published inflation rates and current market prices.

*Contractual capital commitments*

As at 31 December 2011, the Group had outstanding contractual commitments relating to the construction of property, plant and equipment in the amount of RUB 10 113 507 thousand (31 December 2010: RUB 16 838 739 thousand).

The Group has already allocated the necessary resources to meet these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

*Operating lease*

The Group leases a number of land plots owned by local authorities under operating leases. Land lease commitments are determined by lease agreements and are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Not later than one year | 110 355 | 109 991 |
| Later than one year and not later than five years | 413 497 | 380 097 |
| Later than five years | 2 354 872 | 1 966 356 |
| **Total operating lease** | **2 878 724** | **2 456 444** |

## Note 26. Contingencies

*Political environment*

The Group's operations and earnings continue, intermittently and to varying degrees, to be affected by ongoing political, legislative, fiscal and regulatory developments (including those related to environmental protection) in Russia.

*Insurance*

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

*Legal proceedings*

The Group is a party to certain legal proceedings arising in the ordinary course of business. It is management's view that there are no current legal proceedings or other claims outstanding and not provided for which, on their conclusion, will have an adverse material effect on the Group's financial standing.

*Tax legislation*

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 reviews may cover longer periods.

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

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

## Note 26. Contingencies (continued)

*Tax legislation (continued)*

As at 31 December 2011 the Group estimates that it has no potential liabilities from exposure to possible tax risks (as at 31 December 2010 the potential liabilities were estimated as being RUB 521 698 thousand).

In addition, tax and other legislation do not specifically address all the aspects of the Group's reorganisation related to the electricity and utilities sector reforms. Therefore, the various interpretations, transactions and resolutions that were part of the reorganisation and reform process may give rise to tax/legal challenges.

*Environmental matters*

The enforcement of environmental protection regulations in the Russian Federation is evolving and the government authorities' stance on enforcement is under rolling review. The Group periodically evaluates its responsibilities under environmental regulations. These responsibilities are recognised as soon as they are set out.

Potential liabilities might arise as a result of changes in legislation and regulation, or as a result of 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 relating to environmental damage.

## Note 27. Financial Risk Management

Within the Group, the risk management function is carried out with regard to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure remains within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

*Credit risk*

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. 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.

Financial assets, which potentially subject the Group to credit risk exposure, consist principally of trade receivables. Although the 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.

## Note 27. Financial Risk Management (continued)

*Credit risk (continued)*

Cash transactions are conducted through high-credit-quality financial institutions. Cash is placed in financial institutions, which are considered at time of deposit to be at minimal risk of default.

The table below shows the rating of and balances with major banks at the reporting dates:

| | Rating agency | National scale ratings | Long-term RDE* in foreign currency | 31 December 2011 | 31 December 2010 |
|---|---|---|---|---|---|
| **Cash at bank and cash equivalents** | | | | | |
| Sberbank RF | Fitch | - | BBB | 4 508 | 30 302 |
| NB Trust | Moody's | - | Caa1 | 9 | 1 256 |
| Alfabank | Fitch | AA-(rus) | BB+ | 48 602 | 214 |
| VTB | Fitch | AAA (rus) | BBB | 92 553 | 42 043 |
| AB Russia | Moody's | BBB (rus) | B2 | 226 170 | 161 108 |
| Baltiyskiy Bank | Moody's | - | - | - | 9 025 |
| UnicreditBank | Fitch | AAA (rus) | BBB+ | 4 | 3 |
| Sobinbank | Moody's | - | B3 | 73 | 29 432 |
| Other | - | - | - | 3 626 | 3 835 |
| **Total cash at bank and cash equivalents** | | | | **375 545** | **277 218** |

** Rating of default of the bank*

At the reporting date there were no significant credit risk concentrations. The maximum exposure to credit risk at the reporting date without taking account of any collateral held is as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Cash and cash equivalents (Note 11) | 375 545 | 277 218 |
| Short - term investments (Note 12) | 5 847 | 6 201 |
| Total short-term financial receivables (Note 14) | 9 894 067 | 8 550 212 |
| Total long-term financial receivables (Note 10) | 25 188 | 40 374 |
| **Total** | **10 300 647** | **8 874 005** |

The Group structures the levels of credit risk it takes on by limiting on the amount of risk accepted in relation to individual counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

*Market risk*

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

Sensitivities to the market risks detailed below are based on a change in one factor while all other factors remain constant. In practice this is unlikely to occur and there may be correlations between changes in some factors – such as, for example, changes in interest rate and foreign currency rates.

## Note 27. Financial Risk Management (continued)

*Currency risk*

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates in its financial position and cash flows. As at 31 December 2011, the Group had the following currency positions:

| | RUB | EURO | Total |
|---|---|---|---|
| **Monetary financial assets** | | | |
| Cash and cash equivalents | 303 902 | 71 643 | 375 545 |
| Short - term investments | 5 847 | - | 5 847 |
| Total short-term financial receivables | 9 792 239 | 101 828 | 9 894 067 |
| Total long-term financial receivables | 25 188 | - | 25 188 |
| **Total financial assets** | **10 127 176** | **173 471** | **10 300 647** |
| **Monetary financial liabilities** | | | |
| Long-term borrowings | (22 127 162) | (340 584) | (22 467 746) |
| Short-term borrowings | (11 186 270) | (213 166) | (11 399 436) |
| Total other financial liabilities | (7 512 799) | - | (7 512 799) |
| **Total financial liabilities** | **(40 826 231)** | **(553 750)** | **(41 379 981)** |
| **Net balance sheet position** | **(30 699 055)** | **(380 279)** | **(31 079 334)** |

As at 31 December 2010, the Group had the following currency positions:

| | RUB | EURO | Total |
|---|---|---|---|
| **Monetary financial assets** | | | |
| Cash and cash equivalents | 179 629 | 97 589 | 277 218 |
| Short - term investments | 6 201 | - | 6 201 |
| Total short-term financial receivables | 8 413 401 | 136 811 | 8 550 212 |
| Total long-term financial receivables | 40 374 | - | 40 374 |
| **Total financial assets** | **8 639 605** | **234 400** | **8 874 005** |
| **Monetary financial liabilities** | | | |
| Long-term borrowings | (15 758 236) | (535 965) | (16 294 201) |
| Short-term borrowings | (6 699 400) | (206 320) | (6 905 720) |
| Total other financial liabilities | (6 253 541) | - | (6 253 541) |
| **Total financial liabilities** | **(28 711 177)** | **(742 285)** | **(29 453 462)** |
| **Net balance sheet position** | **(20 071 572)** | **(507 885)** | **(20 579 457)** |

As at 31 December 2011, if the Russian Rouble had weakened/strengthened 20% (2010: 20%) against the EURO with all other variables remaining constant, the year's profit would have been RUB 76 056 thousand (2010: RUB 101 577 thousand) lower/higher. Since the Group does not hold any financial instruments re-valued through equity, the effect of changes to the exchange rate on equity would be the same as those on post-tax profit.

## Note 27. Financial Risk Management (continued)

*Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's liquidity risk management includes maintaining sufficient cash to fund operations and the investment programme, and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities, dividing them into relevant maturity groupings based on the remaining period to the contractual maturity date in the consolidated statement of financial position and the contractual undiscounted amounts.

| | | Contractual cash flows | | | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2011** | **Carrying amount** | **Total** | **Less than 1 month** | **From 1 to 3 months** | **From 3 months to 1 year** | **From 1 to 5 years** |
| Long-term and short-term bonds | 6 032 609 | 6 037 690 | - | - | 1 143 503 | 4 894 187 |
| Long-term and short-term loans | 27 834 573 | 27 834 573 | 196 179 | 909 049 | 9 155 786 | 17 573 559 |
| Total other financial liabilities | 7 512 799 | 11 734 619 | 4 681 417 | 1 189 903 | 3 838 039 | 2 025 260 |
| **Total financial liabilities** | **41 379 981** | **45 606 882** | **4 877 596** | **2 098 952** | **14 137 328** | **24 493 006** |

| | | Contractual cash flows | | | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2010** | **Carrying amount** | **Total** | **Less than 1 month** | **From 1 to 3 months** | **From 3 months to 1 year** | **From 1 to 5 years** |
| Long-term and short-term bonds | 5 923 126 | 6 143 503 | - | - | 5 000 000 | 1 143 503 |
| Long-term and short-term loans | 17 276 795 | 17 276 795 | - | - | 1 905 720 | 15 371 075 |
| Total other financial liabilities | 6 253 541 | 9 791 630 | 3 976 749 | 795 020 | 2 999 017 | 2 020 844 |
| **Total financial liabilities** | **29 453 462** | **33 211 928** | **3 976 749** | **795 020** | **9 904 737** | **18 535 422** |

*Interest rate risk*

The Group's operating profits and cash flows from operating activity are largely independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | **31 December 2011** | **31 December 2010** |
| **Fixed rate instruments** | | |
| Long-term loans and borrowings | 20 127 162 | 11 917 036 |
| Short-term loans and borrowings | 11 186 270 | 5 000 000 |
| **Variable rate instruments** | | |
| Long-term loans and borrowings | 2 340 584 | 4 377 165 |
| Short-term loans and borrowings | 213 166 | 1 905 720 |
| **Total financial instruments** | **33 867 182** | **23 199 921** |

## Note 27. Financial Risk Management (continued)

*Interest rate risk (continued)*

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

A general increase/decrease of one percent in interest rates would have decreased/increased the Group's profit after income tax for the year ended 31 December 2011 by approximately RUB 5 752 thousand (for the year ended 31 December 2010: RUB 8 749 thousand). The effect on equity (retained earnings) would be the same as on post-tax profit.

*Fair value sensitivity analysis for fixed rate instruments*

In 2011 the Group did not hold any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group did not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date would not affect profit or loss.

*Fair values*

The fair value of long-term bonds (including the current portion), as estimated by management on the basis of future contracted cash flows and marketable interest rates on similar instruments applicable to the Group, is less than its carrying value in the amount of RUB 5 081 thousand as at 31 December 2011 (as at 31 December 2010: RUB 220 377 thousand).

Management believes that the fair values of the Group's other financial assets and liabilities approximate their carrying values as of both year ends and determines the appropriate level of the financial assets and liabilities using a three –tiered hierarchy on the basis of the lowest level input that is significant in fair value measurements.

*Capital management*

The Group's capital management objectives are to safeguard its ability to continue as a going concern in order to provide returns to equity holders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders or issue new shares. The amount of capital that the Group managed as of 31 December 2011 was RR 77 087 184 thousand (2010: RR 74 739 852 thousand). Capital management is linked to maintaining certain financial ratios to comply with bank-imposed covenants (see Notes 17 and 19).

## Note 28. Segment Information

The Group generates its revenues from electricity and thermal power generation in one geographical segment: the Russian Federation (see Note 3). The Group's major customers are regional electricity wholesalers. The Group has no single customer that accounts for 10% or more of its total revenue.

The Company's Management Board controls and allocates the Group's economic resources between segments and evaluates the segment's operating efficiency. The Group's primary activity is producing electricity and thermal power and capacity. The technology of electricity and thermal power production does not allow the segregation of electricity and thermal power segments. Due to significant decentralisation and the distances that separate Company branches, the Group uses seven primary reporting segments: TPP of Nevsky branch, HPS of Nevsky branch, Heating Network, Kolsky branch, Karelsky branch, Murmanskaya TPP and Kolskaya Heating Company. All reporting segments are located within the Russian Federation. In evaluating segment results and allocating the Group's economic resources the Management Board uses the financial information provided below prepared in accordance with Russian Accounting Standards (RAS). Differences between the above-mentioned financial indicators analysed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAS. The main differences relate to the respective carrying values of property, plant and equipment.

## Note 28. Segment Information (continued)

| Year ended 31 December 2011 | TPP of Nevsky branch | HPS of Nevsky branch | Heating Network | Kolsky branch | Karelsky branch | Murman-skaya TPP | Kolskaya Heating Company | Unallocated segments | Eliminations | Adjustments | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue: | 33 418 981 | 4 384 570 | 5 469 594 | 9 583 666 | 4 870 335 | 4 467 158 | 39 296 | 5 433 254 | (6 135 012) | (1 280 082) | **60 251 760** |
| including export | - | 1 082 094 | - | 1 034 175 | - | - | - | - | - | - | **2 116 269** |
| Depreciation of property, plant, equipment | 3 162 774 | 227 689 | 1 771 220 | 348 825 | 371 642 | 42 013 | 401 | 147 418 | - | (1 397 189) | **4 674 793** |
| Reportable segment profit / (loss) | 172 031 | 2 318 476 | 373 975 | 4 297 646 | 690 802 | 32 218 | (65 357) | (3 883 297) | - | 1 349 569 | **5 286 063** |
| *Other material non-cash items:* | | | | | | | | | | | |
| Impairment loss reversal | - | - | - | - | - | - | - | - | - | | |
| Impairment loss recognized | - | - | - | - | - | (27 417) | - | - | - | | **(27 417)** |

| Year ended 31 December 2010 | TPP of Nevsky branch | HPS of Nevsky branch | Heating Network | Kolsky branch | Karelsky branch | Murman-skaya TPP | Kolskaya Heating Company | Unallocated segments | Eliminations | Adjustments | Total operating segments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue: | 30 623 667 | 3 931 699 | 4 604 607 | 7 433 885 | 4 018 606 | 3 799 628 | - | 2 404 391 | (2 712 592) | (3 617 074) | **50 486 817** |
| including export | - | 979 407 | - | 1 108 823 | - | - | - | - | - | - | **2 088 230** |
| Depreciation of property, plant, equipment | 1 337 376 | 191 055 | 1 222 734 | 294 278 | 294 983 | 42 999 | | 5 431 | - | (88 388) | **3 300 468** |
| Reportable Segment profit / (loss) | 1 307 584 | 1 823 638 | 757 425 | 2 859 147 | 811 191 | (1 108 695) | - | (2 831 692) | - | 4 643 414 | **8 262 012** |
| *Other material non-cash items:* | | | | | | | | | | | |
| Impairment loss reversal | - | - | 4 007 001 | - | - | - | - | | - | - | **4 007 001** |
| Impairment loss recognized | - | - | - | - | - | (42 698) | - | | - | - | **(42 698)** |

## Note 28. Segment Information (continued)

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Elimination of bilateral contract's revenue | (1 280 082) | (3 617 074) |
| | **(1 280 082)** | **(3 617 074)** |
| Depreciation adjustment | 1 397 189 | 88 388 |
| (Charge)/reversal of property, plant and equipment impairment, net | (27 417) | 3 964 303 |
| Provision for impairment of trade and other receivables | 53 159 | (71 308) |
| Actuarial losses | 36 | (118 867) |
| Effect of discounting | (197 819) | (5 595) |
| Interest capitalized | - | 745 582 |
| Net change in fair value of available-for-sale investments | - | 201 815 |
| Elimination of electricity purchase on bilateral contracts | 1 280 082 | 3 617 074 |
| Other adjustments | 124 421 | (160 904) |
| | **2 629 651** | **8 260 488** |
| **Total adjustments to profit before income tax** | **1 349 569** | **4 643 414** |

Segment's assets are disclosed below:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| TPP of Nevsky branch | 69 625 782 | 60 728 191 |
| HPS of Nevsky branch | 7 914 704 | 7 233 720 |
| Heating Network | 35 931 383 | 15 042 245 |
| Kolsky branch | 10 800 764 | 10 232 209 |
| Karelsky branch | 4 784 007 | 4 704 837 |
| Murmanskaya TPP | 2 806 604 | 2 442 284 |
| Kolskaya Heating Company | 67 038 | - |
| Unallocated segments | 22 717 794 | 5 878 895 |
| Eliminations | (17 191 010) | (4 020 572) |
| Adjustments | 485 069 | 11 123 019 |
| **Total assets** | **137 942 135** | **113 364 828** |

A reconciliation of management financial information prepared based on RAS to IFRS figures is provided as follows:

| | Year ended 31 December 2011 | Year ended 31 December 2010 |
|---|---|---|
| Property, plant and equipment adjustment | 470 730 | 11 105 506 |
| Impairment of trade and other receivables | - | (53 159) |
| Deferred tax assets | 193 364 | 325 887 |
| Discounting of accounts receivables and investments | (11 802) | (29 279) |
| Other adjustments | (167 223) | (225 936) |
| **Total assets adjustments** | **485 069** | **11 123 019** |

Unallocated assets are the assets which cannot be directly related to a particular operating segment, and also those which from the decision-making perspective fall outside the operating segment's control. These assets include short- and long-term trade receivables, cash in bank, deposits, inventories and fixed assets which are the subject to headquarter control.

The Group's management does not review the information relating to the operating segment's liabilities in order to make decisions about resource allocation since a significant proportion of the payment transactions are centralised.

## Note 29. Events after the Reporting Period

For the period 1 January 2012 to 20 April 2012, the Group received long-term loans of RUB 5 111 000 thousand and short-term loans of RUB 836 858 thousand.

For the period 1 January 2012 to 20 April 2012, the Group repaid borrowings of RUB 8 344 026 thousand (including repayment of OJSC AKB ROSBANK loans of RUB 1 783 924 thousand and CJSC "Unicreditbank" of RUB 1 124 711 thousand, including interest).

On 27 February 2012, the Group issued 2 000 000 bonds at a nominal value of RUB 1 000 per bond, with the coupon rate of 7.6%, maturing on 14 February 2022.

*Bonds offer*

As a result of the offer of 15 March 2012, the Group redeemed 742 852 of short-term bonds it issued in March 2007, therefore the total amount of bonds outstanding as at 1 April 2012 is 400 651 with a coupon rate of 7.6%.

*Additional contribution in OJSC "Hibinskaya TK"*

On 22 August 2011, Russia's Federal Financial Markets Service (FSFR) registered OJSC Hibinskaya TK's additional equity issue for a total amount of 800 000 000 shares with state serial number 1-01-04202-D-002D at a nominal value of RUB 1 per share. Additional issue stock flotation will be realised among OJSC Hibinskaya TK's shareholders (retaining previous shares, 50% - OJSC Apatit, 50% - JSC TGC-1). On 27 February 2012, the Group transferred the first tranche (in the amount of RUB 225 000 thousand) in return for the aforementioned shares.

As a result of the stock floatation, JSC TGC-1's share in OJSC Hibinskaya TK's share capital will increase to RUB 448 300 thousand.

*Government Grants*

In March 2012 JSC Murmanskaya TPP received a grant for the compensation of income in relation to providing heating services per tariffs that don't cover expenses from Murmansk Region budget for a total amount of RUB 103 419 thousand.