OGK-1 Group

Consolidated financial statements

31 December 2011

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Contents

Independent auditors' report 1

Consolidated financial statements

Consolidated statement of financial position 3
Consolidated statement of comprehensive income 4
Consolidated statement of cash flows 5
Consolidated statement of changes in equity 6

Notes to the consolidated financial statements

1. The Group and its operations 7
2. Basis of preparation 8
3. Summary of significant accounting policies 12
4. Critical accounting estimates and judgements 23
5. Fair value determination 24
6. Operating segments 25
7. Financial instruments and financial risk factors 29
8. Property, plant and equipment 33
9. Other non-current assets 36
10. Cash and cash equivalents 37
11. Accounts receivable and prepayments 37
12. Inventories 38
13. Other current assets 38
14. Equity 39
15. Income tax 40
16. Pension liabilities 41
17. Other non-current liabilities 43
18. Loans and borrowings 43
19. Accounts payable and accruals 44
20. Taxes payable 44
21. Revenue 44
22. Operating expenses, net 45
23. Finance income and costs, net 45
24. Earnings per share, basic and diluted (in RR) 45
25. Interest in joint venture 46
26. Commitments 46
27. Contingencies 47
28. Related parties 48
29. Subsequent events 50

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Independent auditors' report

To the shareholders and to the Board of Directors of Open Joint Stock Company First Generation Company of the Wholesale Electricity Market (OJSC OGK-1)

We have audited the accompanying consolidated financial statements of OJSC OGK-1 and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the 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.

Ernst & Young LLC

16 March 2012

OGK-1 Group

Consolidated statement of financial position

as at 31 December 2011

(in millions of Russian Roubles)

	Note	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Assets				
Non-current assets				
Property, plant and equipment	8	40,825	34,854	31,127
Intangible assets		61	76	95
Investment in joint venture	25	15,669	13,958	13,701
Other non-current assets	9	382	3,581	304
Total non-current assets		**56,937**	**52,469**	**45,227**
Current assets				
Cash and cash equivalents	10	1,601	16,307	1,571
Accounts receivable and prepayments	11	5,110	2,660	3,651
Inventories	12	2,736	2,065	2,160
Income tax receivable		149	34	135
Other current assets	13	9,371	3,764	142
Total current assets		**18,967**	**24,830**	**7,659**
Total assets		**75,904**	**77,299**	**52,886**
Equity and liabilities				
Equity				
Registered share capital	14	37,620	25,660	25,660
Unregistered share capital		–	11,960	–
Share premium		11,342	11,342	–
Treasury shares		(40)	(40)	(40)
Other reserves		–	(13)	(38)
Retained earnings		18,314	13,696	10,203
Total equity		**67,236**	**62,605**	**35,785**
Non-current liabilities				
Deferred tax liabilities	15	3,375	2,939	2,684
Loans and borrowings	18	–	5,517	8,211
Pension liabilities	16	439	420	388
Other non-current liabilities	17	161	134	6
Total non-current liabilities		**3,975**	**9,010**	**11,289**
Current liabilities				
Loans and borrowings	18	–	1,667	2,717
Accounts payable and accruals	19	4,485	2,917	2,580
Income tax payable		1	242	68
Taxes payable	20	207	858	447
Total current liabilities		**4,693**	**5,684**	**5,812**
Total liabilities		**8,668**	**14,694**	**17,101**
Total equity and liabilities		**75,904**	**77,299**	**52,886**

Chief Executive Officer of LLC INTER RAO – Electricity Generation Management – the management company for JSC OGK-1 — G.F. Binko

Chief Accountant — M.R. Evdokimova

16 March 2012

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out in Notes 1-29.

OGK-1 Group

Consolidated statement of comprehensive income

for the year ended 31 December 2011

(in millions of Russian Roubles)

	Note	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Revenue	21	55,753	49,226
Operating expenses	22	(52,006)	(44,815)
Operating profit		**3,747**	**4,411**
Share in profit of joint venture	25	1,711	256
Finance income	23	774	110
Finance costs	23	(290)	(560)
Profit before income tax		**5,942**	**4,217**
Income tax expense	15	(1,324)	(724)
Profit for the period		**4,618**	**3,493**
Other comprehensive income			
Change in fair value of available-for-sale investments	9	13	25
Total comprehensive income for the year		**4,631**	**3,518**
Earnings per share, basic and diluted (in Russian Roubles)	24	0.071	0.078

The consolidated statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out in Notes 1-29.

OGK-1 Group

Consolidated statement of cash flows

for the year ended 31 December 2011

(in millions of Russian Roubles)

	Note	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Cash flows from operating activities			
Profit before income tax		5,942	4,217
Adjustments for:			
Depreciation and amortisation	22	2,292	2,152
Loss on disposal of property, plant and equipment	22	32	116
Reversal of provision for impairment of inventories		(4)	(11)
Write off of accounts receivable		28	2
Provision for impairment of accounts receivable charge/(reversal)	22	813	(117)
Share in profit of joint venture	25	(1,711)	(256)
Net finance (income)/costs	23	(484)	450
Change in provisions and accruals		19	18
Impairment of available for sale financial assets	9	43	–
Other non-cash items		5	2
Operating cash flows before working capital changes and income tax paid		**6,975**	**6,573**
Working capital changes:			
(Increase)/decrease in accounts receivable and prepayments		(1,447)	741
Increase in value added tax recoverable		(1,234)	(643)
Increase in other current assets		(302)	(17)
(Increase)/decrease in inventories		(666)	105
Decrease in other non-current assets		16	25
Increase/(decrease) in accounts payable and accruals		1,369	(386)
(Decrease)/increase in taxes payable		(872)	569
Increase in other non-current liabilities		13	132
Income tax paid		(1,269)	(333)
Net cash generated from operating activities		**2,583**	**6,766**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(7,406)	(4,156)
Proceeds from disposal of property, plant and equipment		5	3
Interest received		401	85
Purchase of financial investments		(18,600)	(6,546)
Proceeds from disposal of financial investments		15,900	156
Net cash used in investing activities		**(9,700)**	**(10,458)**
Cash flows from financing activities			
Proceeds from loans and borrowings		2,400	5,589
Repayment of loans and borrowings		(9,584)	(9,334)
Interest paid		(405)	(1,131)
Proceeds from additional share issue		–	23,302
Net cash (used in)/generated from financial activities		**(7,589)**	**18,426**
Effect of exchange rate		–	2
(Decrease)/increase in cash and cash equivalents		**(14,706)**	**14,736**
Cash and cash equivalents at the beginning of the year		**16,307**	**1,571**
Cash and cash equivalents at the end of the year		**1,601**	**16,307**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out in Notes 1-29.

OGK-1 Group

Consolidated statement of changes in equity

for the year ended 31 December 2011

(in millions of Russian Roubles)

	Registered share capital	Unregistered share capital	Share premium	Treasury shares	Fair value reserve for available-for-sale investments	Retained earnings	Total
As at 1 January 2010	**25,660**	**–**	**–**	**(40)**	**(38)**	**10,203**	**35,785**
Total comprehensive income for the year							
Profit for the period	–	–	–	–	–	3,493	**3,493**
Additional issue of shares	–	11,960	11,342	–	–	–	**23,302**
Change in fair value of available-for-sale investments	–	–	–	–	25	–	**25**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**25**	**3,493**	**3,518**
As at 31 December 2010	**25,660**	**11,960**	**11,342**	**(40)**	**(13)**	**13,696**	**62,605**
As at 1 January 2011	**25,660**	**11,960**	**11,342**	**(40)**	**(13)**	**13,696**	**62,605**
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	4,618	**4,618**
Other comprehensive income							
Change in fair value of available-for-sale investments (Note 9)	–	–	–	–	13	–	**13**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**13**	**4,618**	**4,631**
Registration of share capital	11,960	(11,960)	–	–	–	–	**–**
As at 31 December 2011	**37,620**	**–**	**11,342**	**(40)**	**–**	**18,314**	**67,236**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out in Notes 1-29.

1. The Group and its operations

The OGK-1 Group (the “Group”) primarily consists of Open Joint-Stock Company First Power Generating Company on the Wholesale Energy Market (“OJSC OGK-1”, or the “Company”), four service subsidiaries and a 75% interest in joint venture interest in NVGRES Holding Ltd., which owns 100% of CJSC Nizhnevartovskaya GRES.

OJSC OGK-1 was established on 23 March 2005 within the framework of the Russian electric power industry restructuring in accordance with Resolution No. 1254-r adopted by the Government of the Russian Federation on 1 September 2003.

The legal address and head office of the Company is located at 27/1, Bolshaya Pirogovskaya street, 119435, Moscow, Russian Federation.

OJSC OGK-1 operates the following power stations (branches): Permskaya GRES, Urengoyskaya GRES, Iriklinskaya GRES, Kashirskaya GRES, and Verkhnetagilskaya GRES.

The Group primary activities are generation and sale of electric power, capacity and heat energy, including re-sale of purchased electric power and capacity.

In December 2010 OJSC OGK-1 issued additional 20,808,551,577 ordinary shares, out of which 18,998,214,286 were acquired by JSC INTER RAO UES. As the result JSC INTER RAO UES obtained 29.03% of the share capital of OJSC OGK-1.

In the course of the additional share issue completed in May 2011 JSC INTER RAO UES obtained 45.99% OGK-1 shares from OJSC Federal Grid Company (hereinafter – “FGC”) and OJSC RusHydro (hereinafter – “RusHydro”). As a result of this acquisition the share of JSC INTER RAO UES in the Group increased to 75.02%. The Government of the Russian Federation is the ultimate controlling party of the Group.

In March 2011 the Group shareholders approved early termination of powers of the management company - JSC INTER RAO UES and transfer executive power to the management company – LLC INTER RAO - Electricity Generation Management. In March 2011 LLC INTER RAO – Electricity Generation Management and OJSC OGK-1 signed the agreement “On Transfer of Powers of the Sole Executive Body of OGK-1 to the Management Organization”.

Operating environment of the Group

The Group’s operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements (“Financial Statements”) reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

1. The Group and its operations (continued)

Regulatory environment

The Government of the Russian Federation directly affects the Group's operations through regulation by the Federal Service for Tariffs ("FST") with respect to its wholesale energy (capacity) sales under the terms of Regulated Contracts, and by the Regional Energy Committees ("RECs") with respect of its heat sales. Operations of all generation facilities are centrally coordinated by OJSC System operator of the Unified energy system ("SO UPS") in order to meet system requirements in an efficient manner. SO UPS is controlled by the Government of Russian Federation.

The Government's economic, social and other policies could have material effect on the operations of the Group.

2. Basis of preparation

These Financial Statements for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Financial Statements are prepared on the historical cost basis except:

- derivative financial instruments and financial investments classified as available-for-sale are stated at fair value;
- defined benefit plan asset is recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

The group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation, except for NVGRES Holding Ltd. which maintains its accounting records in Euro and prepares its financial statements in accordance with IFRS.

These Financial Statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Roubles (RR), which is the functional currency of the Company, its subsidiaries and the joint venture and the currency in which these Financial Statements are presented. All financial information presented in RR has been rounded to the nearest million.

2. Basis of preparation (continued)

Changes in accounting policy

Investment in joint venture

Beginning from January, 2011 the Group changed its accounting policy regarding the investments in joint venture from proportional consolidation to equity method. The new accounting policy is consistent with accounting policy of JSC INTER RAO UES, the parent company of the Group. Management believes that this change provides reliable and more relevant information on the Group's financial position and operating results.

The comparative information has been restated for the effect of adoption of new accounting policy. The Group's share in assets, liabilities, income and expenses of NVGRES Holding Ltd. have been excluded from the respective lines of the consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows. The investment in NVGRES Holding Ltd. has been recognized at cost adjusted for the further change in the Group's share of net assets of NVGRES Holding Ltd.

State-controlled entities

The Group made a decision on application of the amendment to IAS 24 in relation to qualitative disclosure of relationships with state-controlled entities. The nature of relationship between such state-controlled entities and Group is sales and purchases of electric power, capacity and heat.

Classification of property, plant and equipment

Starting from January, 2011 the Group changed grouping of items of property, plant and equipment so as to achieve consistency with classification in JSC INTER RAO UES IFRS consolidated financial statements. The reclassification has been made to prior year data to conform with the current year presentation. There is no effect of reclassification on the consolidated statement of financial position or consolidated statement of comprehensive income.

Restatement of comparative information

Because of the retrospective application of the change in accounting policy along with change in presentation, the following comparative amounts in the consolidated statement of financial position as of 31 December 2010 and 31 December 2009 as well as the consolidated statement of comprehensive income for the year ended 31 December 2010 were restated.

2. Basis of preparation (continued)

Changes in accounting policy (continued)

Consolidated statement of financial position as of 31 December 2010:

	As previously reported	Change in accounting policy for joint venture	As restated
Assets			
Non-current assets			
Property, plant and equipment	41,057	(6,203)	34,854
Intangible assets	81	(5)	76
Investment in joint venture	–	13,958	13,958
Other non-current assets	3,618	(37)	3,581
Total non-current assets	**44,756**	**7,713**	**52,469**
Current assets			
Cash and cash equivalents	24,325	(8,018)	16,307
Accounts receivable and prepayments	3,136	(476)	2,660
Inventories	2,116	(51)	2,065
Income tax receivable	33	1	34
Other current assets	3,832	(68)	3,764
Total current assets	**33,442**	**(8,612)**	**24,830**
Total assets	**78,198**	**(899)**	**77,299**
Equity and liabilities			
Equity			
Share capital – registered shares	25,660	–	25,660
Share capital – unregistered shares	11,960	–	11,960
Share premium	11,342	–	11,342
Treasury shares	(40)	–	(40)
Other reserves	(13)	–	(13)
Retained earnings	13,696	–	13,696
Total equity	**62,605**	**–**	**62,605**
Non-current liabilities			
Deferred tax liabilities	3,270	(331)	2,939
Loans and borrowings	5,517	–	5,517
Pension liabilities	460	(40)	420
Other non-current liabilities	135	(1)	134
Total non-current liabilities	**9,382**	**(372)**	**9,010**
Current liabilities			
Loans and borrowings	1,667	–	1,667
Accounts payable and accruals	3,308	(391)	2,917
Income tax payable	263	(21)	242
Taxes payable	973	(115)	858
Total current liabilities	**6,211**	**(527)**	**5,684**
Total liabilities	**15,593**	**(899)**	**14,694**
Total equity and liabilities	**78,198**	**(899)**	**77,299**

2. Basis of preparation (continued)

Changes in accounting policy (continued)

Consolidated statement of financial position as of 31 December 2009:

	As previously reported	Change in accounting policy for joint venture	As restated
Assets			
Non-current assets			
Property, plant and equipment	36,672	(5,545)	31,127
Intangible assets	96	(1)	95
Investment in joint venture	–	13,701	13,701
Other non-current assets	328	(24)	304
Total non-current assets	**37,096**	**8,131**	**45,227**
Current assets			
Cash and cash equivalents	9,579	(8,008)	1,571
Accounts receivable and prepayments	4,142	(491)	3,651
Inventories	2,224	(64)	2,160
Income tax receivable	135	–	135
Other current assets	482	(340)	142
Total current assets	**16,562**	**(8,903)**	**7,659**
Total assets	**53,658**	**(772)**	**52,886**
Equity and liabilities			
Equity			
Share capital – registered shares	25,660	–	25,660
Share capital – unregistered shares	–	–	–
Share premium	–	–	–
Treasury shares	(40)	–	(40)
Other reserves	(38)	–	(38)
Retained earnings	10,203	–	10,203
Total equity	**35,785**	–	**35,785**
Non-current liabilities			
Deferred tax liabilities	3,024	(340)	2,684
Loans and borrowings	8,211	–	8,211
Pension liabilities	424	(36)	388
Other non-current liabilities	7	(1)	6
Total non-current liabilities	**11,666**	**(377)**	**11,289**
Current liabilities			
Loans and borrowings	2,717	–	2,717
Accounts payable and accruals	2,793	(213)	2,580
Income tax payable	103	(35)	68
Taxes payable	594	(147)	447
Total current liabilities	**6,207**	**(395)**	**5,812**
Total liabilities	**17,873**	**(772)**	**17,101**
Total equity and liabilities	**53,658**	**(772)**	**52,886**

2. Basis of preparation (continued)

Changes in accounting policy (continued)

Consolidated statement of comprehensive income for the year ended 31 December 2010:

	As previously reported	Change in accounting policy for joint venture	As restated
Revenue	56,758	(7,532)	49,226
Operating expenses	(51,382)	6,567	(44,815)
Operating profit	**5,376**	**(965)**	**4,411**
Share in profit of joint venture	–	256	256
Finance income	214	(104)	110
Finance costs	(1,081)	521	(560)
Profit before income tax	**4,509**	**(292)**	**4,217**
Income tax expense	(1,016)	292	(724)
Profit for the year	**3,493**	**–**	**3,493**

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1. Consolidation

The Financial Statements comprise the financial statements of OJSC OGK-1 and the financial statements of those entities whose operations are controlled by OJSC OGK-1.

(a) Subsidiaries

Subsidiaries are those entities in which the Company has the ability to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are consolidated from the date on which control is acquired by the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the cost cannot be recovered.

(b) Joint venture

A joint venture is the entity over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in joint ventures are accounted for using equity method. The Group discontinues the use of equity method from the date on which it ceases to have joint control over joint ventures or where investments in joint ventures are reclassified to non-current assets held-for-sale.

3. Summary of significant accounting policies (continued)

3.2. Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As at 31 December 2011 the official US dollar to Russian Rouble exchange rate as determined by the Central Bank of the Russian Federation (CBRF) was RUB 32.20 (as at 31 December 2010: RUB 30.48). The official Euro to Russian Rouble exchange rate as determined by the CBRF as at 31 December 2011 was RUB 41.67 (as at 31 December 2010: RUB 40.33).

3.3. Property, plant and equipment (PP&E)

PP&E are stated at the carrying value determined at the date of their transfer to the entities of the Group and adjusted for further additions, disposals and depreciation charges.

Cost of acquired PP&E includes expenditure that is directly attributable to the acquisition of the item of PP&E. The cost of a self-constructed asset includes cost of materials and direct labour. Interest costs on borrowings to finance the construction of PP&E are capitalized during the period of time that is required to complete and prepare the asset for its intended use, using the effective interest rate. Where an item of PP&E comprises major components with different useful lives, they are accounted for as separate items of PP&E.

Gains and losses on disposal of an item of PP&E are recognized net as “Gain on disposal of PP&E” within operating expenses in the consolidated statement of comprehensive income.

Advances for capital construction and acquisition of PP&E are included into construction in progress.

(a) Subsequent costs

Renewals and improvements are capitalised and the assets replaced are retired. The costs of regular repair and maintenance are expensed as incurred.

(b) Depreciation

Depreciation of PP&E is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use. The remaining useful lives are reviewed annually.

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

Type of facility	Useful lives, years
Buildings	20-75
Structures, including:	
Hydro engineering structures	13-67
Transmission facilities and equipment	3-28
Thermal networks	11-25
Other structures	15-41
Plant and equipment, including:	
Power equipment	10-50
Other equipment and fixtures	4-45
Other	2-33

Land is not depreciated.

3. Summary of significant accounting policies (continued)

3.3 Property, plant and equipment (PP&E) (continued)

(c) Leased assets

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised as a part of PP&E at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The assets acquired under finance leases are depreciated over the lesser of useful life or leased term.

(d) Impairment of PP&E

The carrying amounts of the Group’s PP&E is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or group of assets (cash-generating unit).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of assets in the unit (group of units) on a pro rata basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed in the event significant changes with a favorable effect on the Company have taken place during the period or will take in the nearest future in the technological market, economic or legal environment in which the Company operates or the asset's market value has increased considerably or market interest rates or other market rates of return on investments have decreased during the period and those differences are likely to affect the discount rate used in calculation of the asset's value in use and increase the assets' recoverable amount materially.

3.4. Intangible assets

Intangible assets that are recognised by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are in the range of 2-10 years.

3. Summary of significant accounting policies (continued)

3.5 Financial instruments

(i) Non-derivative financial assets

Non-derivative financial assets comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, bank deposits.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets estimated at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

(a) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, bank deposits.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and interest bearing deposits which can be effectively withdrawn at any time without restrictions reducing the principal amount of the deposit. Cash equivalents comprise short-term, highly liquid investments, held for the purposes of meeting short-term cash commitments rather than for investment or other purposes, that are readily convertible to known amounts of cash and generally have original maturities of three months or less from their date of purchase.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category (fair value through profit and loss or held to maturity). The Group's investments in equity securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

3. Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

(d) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, as market indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

All individually significant financial assets are assessed for specific impairment individually. Other financial assets are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognised in the consolidated statement of comprehensive income in the component of profit or loss. Every amount of cumulative loss from impairment of available-for-sale financial asset, previously recognised as a component of other comprehensive income (expenses), transfer to profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3. Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

3.6. Financial guarantees

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

3.7. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, excluding fuel expenses which are measured using weighted average method. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.8. Share capital

(a) Ordinary shares

Ordinary shares are classified in equity. Incremental costs directly attributable to the issue of new shares or options are shown in other comprehensive income.

(b) Treasury shares

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity attributable to the Company’s equity holders until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

3. Summary of significant accounting policies (continued)

3.9. Deferred income tax

Deferred income tax is provided for 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 in the period when the temporary differences will reverse or the tax loss carry forward will be utilised. Deferred tax assets and liabilities are recorded in net amount only within the limits of separate Group entities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax movements are recorded in profit or loss except when they are related to the items directly charged to other comprehensive income. In this case deferred taxes are recorded as part of other comprehensive income.

Deferred income tax is not recognised for undistributed earnings of subsidiaries, as the Group requires profits to be reinvested, and only insignificant dividends are expected to be declared from future profits of the subsidiaries. Neither these future profits nor the related taxes are recognized in these financial statements.

The Group does not recognise a deferred tax liability in respect of temporary differences associated with a part of investments in joint venture (Note 25) as the Group controls the timing of the reversal of those temporary differences and does not expect to reverse them in the foreseeable future.

3.10. Pension and post-employment benefits

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

The Group operates a number of defined benefit plans: lump-sum payments at retirement, jubilee benefits, financial support for current pensioners, old-age pension program and death benefits. Defined benefits plans, except old-age pensions, are paid on a pay-as-you-go basis. For old-age pension payments, the Group has contracted with a non-state pension fund. The Group settles its obligations in relation to former employees when they retire from the Group by purchasing annuity policies in the fund. All defined benefits plans are considered to be fully unfunded. When the pension obligation is settled via a non-state pension fund, the employer buys an annuity with the amount of contributions allocated to individual accounts held by the non-state pension fund and any additional contributions that may be required from the employer to meet the cost of the benefit promise.

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 recognized 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 obligations at the reporting date, together with adjustments for unrecognized actuarial gains or losses and past service cost. The defined benefit obligations are calculated using the projected unit credit method.

3. Summary of significant accounting policies (continued)

3.10 Pension and post-employment benefits (continued)

The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates on Government bonds that are denominated in Russian Roubles, and that have terms to maturity approximating the terms of the related pension liabilities.

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 profit or loss over the employees' expected average remaining working lives.

3.11. Loans and borrowings

Loans and borrowings are recognized initially at its fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss as an interest expense over the period of the loans and borrowings.

3.12. Accounts payable

Accounts payable are stated inclusive of value added tax. Accounts payable are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

3.13. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.14. Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer of electricity and heat or non-utility goods and services. Revenue is measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services sold/provided. Revenue is stated net of value added tax. The Group presents electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

3.15. Leases

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3. Summary of significant accounting policies (continued)

3.15. Leases (continued)

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

3.16. Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of discount on provisions and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

3.17. Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments' operating results are reviewed regularly by the Group's chief operating decision-maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Each operating segment is represented by a reportable segment.

Inter-segment pricing is determined on an arm's length basis.

3.18. Earnings per share

The earnings per share are determined by dividing the profit attributable to ordinary shareholders of OJSC OGK-1 by the weighted average number of ordinary shares outstanding during the reporting period.

3. Summary of significant accounting policies (continued)

3.19. Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared (approved by shareholders) before or on the reporting date. Dividends are disclosed when they are declared after the reporting date, but before the financial statements are authorized for issue.

3.20. New financial reporting standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*.The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

- IAS 12 *Income Taxes – Recovery of Underlying Assets*. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

- IAS 19 *Employee Benefits* (Amendment). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the given amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- IAS 27 *Separate Financial Statements* (as revised in 2011). As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

- IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011). As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. Summary of significant accounting policies (continued)

3.20. New financial reporting standards issued but not yet effective (continued)

- IFRS 7 *Financial Instruments*: Dis*closures – Enhanced Derecognition Disclosure Requirements*. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

- IFRS 9 *Financial Instruments*: *Classification and Measurement*. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013.

  In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- IFRS 10 *Consolidated Financial Statements*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- IFRS 11 *Joint Arrangements*. IFRS 11 replaces IAS *31 Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The application of this new standard will not impact the financial position of the Group. The Group applies equity accounting to its investment in joint venture NVGRES Holding Limited.

- IFRS 12 *Disclosure of Involvement with Other Entities*. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 *Fair Value Measurement*. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. Critical accounting estimates and judgements

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

(a) Provision for impairment of accounts receivable

Provision for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer accounts deteriorated compared to prior estimates. If there is 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 Notes 7, 11).

(b) Provision for impairment of other assets

At each reporting date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount of PP&E is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in profit or loss in the period in which the reduction is identified. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment provision will be fully or partially reversed (see Note 8).

(c) Tax contingencies

Russian tax legislation is subject to varying interpretations. The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at each reporting date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws.

Liabilities for penalties, interest and taxes other than on profit are recognized based on management's best estimates of the expenditure required to settle tax obligations at the reporting date.

(d) Useful lives of PP&E

The estimation of the useful lives of items of PP&E is a matter of management 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 to future depreciation rates.

4. Critical accounting estimates and judgements (continued)

(e) Accounting for leases

Management applies judgment in determining whether to account for lease agreements as finance or operating leases. In the application of this judgment, management makes assessment of various factors including which party carries the risks and rewards of ownership, the extent of the lease term and whether early termination clauses can be exercised by the different parties to the lease.

(f) Revenue recognition

Electricity purchases entered into to support a delivery of non-regulated bilateral contracts are presented in the consolidated financial statements net within revenue. Management applies judgement in determining which electricity purchases are entered into in order to support a delivery of non-regulated bilateral contracts.

(g) Decommissioning liability

The estimated costs of removing an item of PP&E and land rehabilitation are added to the cost of an item of PP&E when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. A provision is recognized based on the net present values for land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of ash dumps estimates and discount rates could affect the carrying amount of this provision.

(h) Pension benefits

The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

5. Fair value determination

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

5. Fair value determination (continued)

Non-derivative financial liabilities

Fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date for disclosure purposes.

6. Operating segments

The Group has three reportable segments, as described below, that are managed separately. For each of reportable segments, the management company reviews internal management reports prepared based on the statutory accounting records.

The following reportable segments have been identified based on the requirements of IFRS 8 *Operating Segments*:

- OJSC OGK-1. Includes the head-office and five power stations (branches): Permskaya GRES, Urengoyskaya GRES, Iriklinskaya GRES, Kashirskaya GRES, and Verkhnetagilskaya GRES. It offers services representing generation of electric power, capacity and heat.
- CJSC Nizhnevartovskaya GRES. Includes CJSC Nizhnevartovskaya GRES and NVGRES Holding Ltd. It offers services representing generation of electric power, capacity and heat. It is analysed by the CODM as a separate operating segment disregarding equity method of consolidation as reflected in these Financial Statements.
- Other. Includes service subsidiaries.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment net profit, as included in the internal management reports that are reviewed by the management company. Segment’s net profit is used to measure operating segments performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities within the industry.

The management company also reviews marginal profit, EBITDA, assets, liabilities, capital expenditure and loans and borrowings.

Marginal profit of each segment is measured as revenue from sale of electricity, capacity and heat, excluding fuel expenses and purchased electric power.

EBITDA is calculated as profit for the period before interest expense, income tax expense and depreciation of PP&E and amortisation.

Segment reports are based on the management reports and exclude inter-segment transactions. This financial information differs significantly from the consolidated financial statements prepared under IFRS. Reconciliation of items reported to the management company with similar items in these Financial Statements includes those reclassifications and adjustments that are necessary for financial statements to be presented in accordance with IFRS.

6. Operating segments (continued)

Segment information for the year ended 31 December 2011 is presented below:

	JSC OGK-1	CJSC Nizhne-vartovskaya GRES	Other	Elimination of inter-segment transactions	Total
Total revenue, including:	**68,705**	**12,445**	**223**	**(133)**	**81,240**
Revenue from external customers	*68,700*	*12,444*	*96*	*–*	***81,240***
Inter-segment revenue	*5*	*1*	*127*	*(133)*	**–**
Electricity and capacity power revenue	67,860	12,163	–	(1)	**80,022**
Heating revenue	624	116	–	(2)	**738**
Fuel expenses	(33,343)	(6,758)	–	–	**(40,101)**
Purchased electric power and capacity for resale	(18,000)	(467)	(3)	1	**(18,469)**
Marginal profit	**17,141**	**5,054**	**(3)**	**(2)**	**22,190**
Net profit	**2,902**	**1,955**	**(3)**	**9**	**4,863**
Adjustments for:					
Depreciation of PP&E	2,286	415	11	–	**2,712**
Interest expense	290	23	–	–	**313**
Income tax expense	950	308	2	–	**1,260**
EBITDA	**6,428**	**2,701**	**10**	**9**	**9,148**
Capital expenditure	11,647	2,313	8	–	**13,968**
Interest income	914	62	3	–	**979**

Segment information as at 31 December 2011 is presented below:

	JSC OGK-1	CJSC Nizhne-vartovskaya GRES	Other	Elimination of inter-segment transactions	Total
Total assets, including:	**65,195**	**13,672**	**142**	**(6,006)**	**73,003**
Construction in progress	*15,070*	*2,769*	*2*	**–**	***17,841***
Advances given for capital expenditures	*490*	*2,267*	**–**	**–**	***2,757***
Trade receivables	*3,214*	*879*	*23*	*(11)*	***4,105***
Total liabilities, including:	**6,160**	**3,576**	**28**	**(22)**	**9,742**
Loans and borrowings	**–**	*2,459*	**–**	**–**	***2,459***

6. Operating segments (continued)

Segment information for the year ended 31 December 2010 is presented below:

	JSC OGK-1	CJSC Nizhne-vartovskaya GRES	Other	Elimination of inter-segment transactions	Total
Total revenue, including:	**56,467**	**10,256**	**197**	**(118)**	**66,802**
Revenue from external customers	*56,461*	*10,256*	*85*	*–*	***66,802***
Inter-segment revenue	*6*	*–*	*112*	*(118)*	***–***
Electricity and capacity power revenue	55,758	10,112	–	–	**65,870**
Heating revenue	632	123	–	(2)	**753**
Fuel expenses	(27,475)	(5,459)	–	–	**(32,934)**
Purchased electric power and capacity for resale	(12,940)	(474)	–	–	**(13,414)**
Marginal profit	**15,975**	**4,302**	**–**	**(2)**	**20,275**
Net profit	**2,757**	**933**	**12**	**(4)**	**3,698**
Adjustments for:					
Depreciation of PP&E	2,031	394	10	–	**2,435**
Interest expense	560	–	–	–	**560**
Income tax expense	914	412	2	–	**1,328**
EBITDA	**6,262**	**1,739**	**24**	**(4)**	**8,021**
Capital expenditure	2,789	1,390	14	–	**4,193**
Interest income	84	123	1	–	**208**

Segment information as at 31 December 2010 is presented below:

	JSC OGK-1	CJSC Nizhne-vartovskaya GRES	Other	Elimination of inter-segment transactions	Total
Total assets, including:	**69,284**	**9,606**	**140**	**(6,013)**	**73,017**
Construction in progress	*5,440*	*560*	*–*	*–*	***6,000***
Advances given for capital expenditures	*6,250*	*1,076*	*–*	*–*	***7,326***
Trade receivables	*2,195*	*511*	*19*	*(10)*	***2,715***
Total liabilities, including:	**36,460**	**1,464**	**23**	**(20)**	**37,927**
Loans and borrowings	*7,222*	*675*	*–*	*–*	***7,897***

6. Operating segments (continued)

Reconciliation of key segment items measured as reported to the management company with similar items in these consolidated financial statements is presented in the tables below.

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Total revenue for reportable segments	**81,240**	**66,802**
Net presentation of transactions related to free bilateral agreements	(13,261)	(7,602)
Revenue of CJSC Nizhnevartovskaya GRES	(12,445)	(10,256)
Revenue included in other income and expenses	219	282
Revenue per consolidated statement of comprehensive income	**55,753**	**49,226**
Marginal profit for reportable segments	**22,190**	**20,275**
Marginal profit of CJSC Nizhnevartovskaya GRES	(5,054)	(4,302)
Rent expenses included in fuel expenses	193	180
Other	–	(98)
Marginal profit derived from consolidated statement of comprehensive income	**17,329**	**16,055**
Operating expenses	(14,115)	(12,091)
Other revenues	533	447
Operating profit per consolidated statement of comprehensive income	**3,747**	**4,411**
EBITDA for reportable segments	**9,148**	**8,021**
EBITDA of CJSC Nizhnevartovskaya GRES from reportable segments	(2,701)	(1,739)
Share in profit of joint venture	1,711	256
Provision for impairment of accounts receivable	45	171
Accruals and write-offs	112	156
Adjustments on property, plant and equipment	227	98
Other	(18)	(34)
EBITDA derived from consolidated statement of comprehensive income	**8,524**	**6,929**
Depreciation of PP&E	(2,267)	(2,117)
Interest expense	(290)	(560)
Amortisation of intangible assets	(25)	(35)
Profit before income tax per consolidated statement of comprehensive income	**5,942**	**4,217**

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Net profit for reportable segments	**4,863**	**3,698**
Profit of CJSC Nizhnevartovskaya GRES	(1,955)	(933)
Share in profit of joint venture	1,711	256
Provision for impairment of accounts receivable	45	171
Deferred tax	(373)	230
Adjustments on property, plant and equipment	227	(4)
Accruals and write-offs	112	69
Other	(12)	6
Net profit per consolidated statement of comprehensive income	**4,618**	**3,493**
Capital expenditure for reportable segments	**13,968**	**4,193**
Capital expenditure of CJSC Nizhnevartovskaya GRES	(2,313)	(1,390)
Advances given for capital expenditures	(3,526)	3,114
Provision for land restoration	206	–
Other	31	99
Capital expenditure per financial statements	**8,366**	**6,016**

6. Operating segments (continued)

	31 December 2011	31 December 2010 (Restated)
Total assets for reportable segments	**73,003**	**73,017**
Assets of CJSC Nizhnevartovskaya GRES	(13,672)	(9,606)
Carrying value of investment to NVGRES Holting Ltd.	9,797	8,085
Elimination of intra-segment balances of CJSC Nizhnevartovskaya GRES	5,878	5,878
IFRS adjustments on PP&E	1,036	799
Provision for impairment of accounts receivable	(138)	(184)
Deferres tax	(124)	(43)
Decommissioning liability	128	–
Discounting	(41)	(39)
Accruals and write-offs	40	133
Reclassification and net presentation of assets and liabilities	–	(741)
Other	(3)	–
Total assets per consolidated statement of financial position	**75,904**	**77,299**
Total liabilities for reportable segments	**9,742**	**37,927**
Liabilities of CJSC Nizhnevartovskaya GRES	(3,576)	(1,464)
Deferred tax	2,039	1,782
Reclassification and net presentation of assets and liabilities	–	(23,972)
Pension liabilities	456	420
Decommissioning liability	–	–
Other	7	1
Total liabilities per consolidated statement of financial position	**8,668**	**14,694**

The Group receives its revenues from generation of electricity, capacity and heat in the Russian Federation. All of the Group's operating assets are located in the Russian Federation.

7. Financial instruments and financial risk factors

7.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including the effects of changes in foreign currency exchange rates, changes in interest rates, commodity price risk), credit risk and liquidity risk. The Group does not have a risk policy to hedge its financial exposures.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment.

7. Financial instruments and financial risk factors (continued)

7.1 Financial risk factors (continued)

(a) Credit risk

Credit risk is the risk of financial loss incurred by the Group in the case of non-fulfilment by the contractor of the obligations on the financial instrument under a particular contract.

Financial assets which potentially subject the Group entities to concentrations of credit risk consist principally of trade receivables. Although collection of accounts receivable could be influenced by changes in macroeconomic conditions, management believes that there is no significant risk of loss to the Group beyond the provision for impairment of accounts receivable already recorded.

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and therefore the Group assesses the credit quality of the customer at the contract execution stage. The Group takes into account the customer's financial position, past experience and other factors. The collectability of receivables is being constantly monitored and actions for debt collection are regularly executed.

Balances with major counterparties are presented in the table below:

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
CJSC Financial Settlement Center (CJSC CFR)	1,440	1,417	1,287
JSC Mosenergosbyt	274	31	–
LLC ProektEnergoRus	164	–	–
JSC Permenergosbyt	249	71	51
JSC INTER RAO UES	205	225	–

CJSC CFR is a commercial organization, which acts as a unified counterparty on wholesale electricity market and concludes sale and purchase contracts on its behalf, facilitating wholesale electricity and capacity trading.

Under the commission agreements between CJSC CFR and OJSC OGK-1 and also between CJSC CFR and CJSC Nizhnevartovskaya GRES CJSC CFR act as a commission agent between OGK-1 and CJSC Nizhnevartovskaya GRES (the sellers) and the final buyers of electricity and capacity on the wholesale market and is not responsible for the buyer’s default on payments for the supplied electricity.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 11. The Group does not have receivables past due but not impaired. The impairment allowance is recognized in respect of trade receivables not past due in the amount of RR 43 million as at 31 December 2011. The Group does not hold collateral as security.

The Group is exposed to credit risk from balances with banks and financial institutions. Cash and short-term deposits are mainly placed in major Russian banks. Although part of them did not obtain independent credit ratings, the management believes them to be reliable counterparties basing on analysis performed by the Group and history of operations with them. No bank balances and term deposits are past due or impaired. The analysis by credit quality of bank balances and term deposits disclosed in Note 10.

7. Financial instruments and financial risk factors (continued)

7.1 Financial risk factors (continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure as presented in the table below:

		Carrying amount		
	Note	**31 December 2011**	**31 December 2010 (Restated)**	**31 December 2009 (Restated)**
Cash and cash equivalents	10	1,601	16,307	1,571
Trade and other receivables	11	3,569	2,530	1,943
Bank deposits	9,13	9,200	9	–
Assets related to employee benefit fund	9	127	127	117
Bank bills of exchange	9,13	339	6,525	185
Available-for-sale financial assets	9	43	74	51
Total		**14,879**	**25,572**	**3,867**

(b) Liquidity risk

The Group's liquidity risk management includes maintaining a sufficient cash position and the availability of financing to support the Group's operational activity.

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**
At 31 December 2011						
Loans and borrowings	–	–	–	–	–	–
Interest payable	–	–	–	–	–	–
Trade payables	2,617	2,617	2,617	–	–	–
Accrued liabilities and other payables	1,868	1,868	1,868	–	–	–
At 31 December 2010 (Restated)						
Loans and borrowings	7,184	7,184	1,667	3,684	1,833	–
Interest payable	39	930	490	375	65	–
Trade payables	1,906	1,906	1,906	–	–	–
Accrued liabilities and other payables	1,011	1,011	1,011	–	–	–
At 31 December 2009 (Restated)						
Loans and borrowings	10,928	10,928	2,717	3,895	4,316	–
Interest payable	98	2,781	1,312	926	543	–
Trade payables	1,598	1,598	1,598	–	–	–
Accrued liabilities and other payables	982	982	982	–	–	–

7. Financial instruments and financial risk factors (continued)

7.1 Financial risk factors (continued)

(c) Interest rate risk

The Group is not exposed to interest rate risk as it has no interest-bearing borrowings with floating rates.

(d) Currency risk

The financial condition of the Group, its liquidity, financing sources and the results of activities do not considerably depend on currency rates as the Group activities are performed in such a way that its assets and liabilities are denominated in the national currency. Moreover, the Group does not plan to perform activities on the international market, that is why the influence of foreign currency rates fluctuations on the financial position of the Group is estimated as insignificant.

(e) Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of natural gas. In 2011 the Group concluded a long-term contract for purchase of natural gas with one of the Russian natural gas producers for a period from July 2011 to December 2015. The contract price depends on regulated price annually or biannually established by FST adjusted in the event of difference between actual volume of natural gas consumed by the Group and quarterly agreed volumes in accordance with the contract.

7.2 Capital risk management

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

The Group monitors capital on the basis of a financial leverage ratio. This ratio is calculated as the total debt divided by the total equity. The total debt is calculated as the sum of non-current and current loans and borrowings at the reporting date.

Taking into consideration the absence of borrowings as at 31 December 2011 and the significant amount of short-term bank deposits the Group is not exposed to the capital risk at 31 December 2011.

7.3 Fair value estimation

Fair value of available-for-sale investments was determined based on quoted market prices and was included in Level 1 of the fair value hierarchy. The Group recognized an impairment loss regarding available-for-sale investments (Note 9).

8. Property, plant and equipment

(a) Cost

Cost	Land and buildings	Structures	Plant and equipment	Other	Construction in progress	Total
Opening balance as at 31 December 2010	**10,380**	**4,779**	**28,853**	**350**	**11,277**	**55,639**
Additions and transfers from construction in progress	23	395	1,517	29	6,395	**8,359**
Disposals	(1)	(81)	(46)	(3)	(21)	**(152)**
Closing balance as at 31 December 2011	**10,402**	**5,093**	**30,324**	**376**	**17,651**	**63,846**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2010	**(4,463)**	**(2,325)**	**(12,900)**	**(205)**	**(892)**	**(20,785)**
Charge for the period	(166)	(209)	(1,870)	(22)	–	**(2,267)**
Disposals	1	2	42	3	–	**48**
Disposal of impairment	–	–	–	–	(17)	**(17)**
Closing balance as at 31 December 2011	**(4,628)**	**(2,532)**	**(14,728)**	**(224)**	**(909)**	**(23,021)**
Net book value as at 31 December 2010	**5,917**	**2,454**	**15,953**	**145**	**10,385**	**34,854**
Net book value as at 31 December 2011	**5,774**	**2,561**	**15,596**	**152**	**16,742**	**40,825**

8. Property, plant and equipment (continued)

(a) Cost (continued)

Cost	Land and buildings	Structures	Plant and equipment	Other	Construction in progress	Total
Opening balance as at 31 December 2009 (Restated)	**9,330**	**4,630**	**26,827**	**311**	**8,847**	**49,945**
Additions and transfers from construction in progress	1,051	156	2,027	45	2,737	**6,016**
Disposals	(1)	(7)	(1)	(6)	(307)	**(322)**
Closing balance as at 31 December 2010	**10,380**	**4,779**	**28,853**	**350**	**11,277**	**55,639**
Accumulated depreciation (including impairment)						
Opening balance as at 31 December 2009 (Restated)	**(4,294)**	**(2,128)**	**(11,183)**	**(177)**	**(1,036)**	**(18,818)**
Charge for the period	(169)	(200)	(1,717)	(31)	–	**(2,117)**
Disposals	–	3	–	3	144	**150**
Closing balance as at 31 December 2010	**(4,463)**	**(2,325)**	**(12,900)**	**(205)**	**(892)**	**(20,785)**
Net book value as at 31 December 2009 (Restated)	**5,036**	**2,502**	**15,644**	**134**	**7,811**	**31,127**
Net book value as at 31 December 2010	**5,917**	**2,454**	**15,953**	**145**	**10,385**	**34,854**

8. Property, plant and equipment (continued)

(a) Cost (continued)

The Group capitalised borrowing costs of RR 76 million for the year ended 31 December 2011 (for the year ended 31 December 2010: RR 512 million). A capitalization rate of 7.28% for the year ended 31 December 2011 (for the year ended 31 December 2010: 10.55%) was used to determine the amount of borrowing costs eligible for capitalization representing the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period.

Construction in progress includes advances to construction companies and suppliers of PP&E of RR 1,701 million (net of VAT) and RR 5,227 million (net of VAT) as of 31 December 2011 and 31 December 2010 respectively.

Construction in progress, which includes the construction of new generating units at existing power stations and retooling and modernization of units being in operation, is presented below:

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Urengoyskaya GRES	14,975	8,792	4,272
Permskaya GRES	844	800	804
Kashirskaya GRES	355	276	2,307
Iriklinskaya GRES	291	201	325
Verkhnetagilskaya GRES	277	316	103
Total	**16,742**	**10,385**	**7,811**

Currently in relation to the land occupied by Verkhnetagilskaya GRES, Iriklinskaya GRES, Permskaya GRES, Urengoyskaya GRES and two servicing subsidiaries, operating lease contracts are in place for terms ranging between 1 and 49 years.

(b) Impairment provision for PP&E

The carrying value of PP&E at 31 December 2011 and 31 December 2010 is stated net of an impairment loss of RR 1,935 million and RR 1,972 million, respectively. The total amount of the provision relates to the write-down of construction in progress at Urengoyskaya power station based on the outcome of the impairment test performed by the management as at 31 December 2008.

As at 31 December 2011 the Group performed impairment test in accordance with IAS 36 by comparing the recoverable amount of each cash generating unit to its net book value. Management considered that power stations, being the company's branches, represent cash generating units (CGU). The recoverable amount was determined based on value in use, calculated by discounting the estimated future cash flows using the following assumptions:

- Applied WACC discount rate was 14.10% per annum (31 December 2010: 15.19%);
- Regulated electricity sales tariffs and electricity market prices are expected to change by 9%-14% per annum for the period from 2012 to 2030 (31 December 2010: (3)%-16%);
- Capacity prices are expected to change by 1%-12% for the period from 2012 to 2030 (31 December 2010: 3%-12%);
- Gas purchase prices are expected to change by 9%-13% per annum for the period from 2012 to 2030 (31 December 2010: (3)%-16%);
- Coal purchase prices are expected to change by 9%-11% per annum for the period from 2012 to 2030 (31 December 2010: 1%-16%).

As the result management did not identify any instances where carrying values of PP&E were considered to be impaired thereby requiring the recording of an impairment loss for the year ended 31 December 2011. However, an increase of WACC by 1.2% and 0.6% may result in impairment of property, plant and equipment of Kashirskaya GRES and Urengoyskaya GRES, respectively.

8. Property, plant and equipment (continued)

(c) Operating leases

The Group leases a number of land areas owned by local governments under operating leases. Land lease payments are determined by lease agreements.

In October 2009 OJSC OGK-1 signed a lease agreement for equipment for a thirty year period with a termination clause that can be invoked by the Group in 2014, without penalties. Lease rentals amount to RR 15 million per month and are subject to 10% indexation per annum. Lease rentals to the date that the termination clause can be invoked are as follows:

	31 December 2011	31 December 2010
Less than one year	212	198
Between one year and five years	361	589
Total	**573**	**787**

9. Other non-current assets

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Non-current bank deposit	–	9	–
Non-current value added tax recoverable	16	485	20
Assets related to employee benefit fund (i)	127	127	117
Available-for-sale financial assets (ii)	43	74	51
Non-current trade and other receivables (Net of provision for impairment of RR 0 million, RR 16 million and RR 0 million, respectively)	28	105	61
Non-current bank bills of exchange (iii)	168	2,772	43
Other non-current assets	–	9	12
Total	**382**	**3,581**	**304**

(i) Assets related to employee benefit fund are the Group contributions accumulated in solidary and employees' individual pension accounts with the Non-State Pension Fund of Electric Power Industry (employee benefit fund).

(ii) Available-for-sale investments are represented by 0.02% of ordinary shares of OJSC RusHydro, public company which shares are traded at MICEX. The Group recognized an impairment loss with respect to these investments in the amount of RR 43 million, including a reclassification of accumulated loss from other comprehensive income to profit and loss in amount of RR 13 million.

(iii) Other non-current assets at 31 December 2010 included non-current bank bills of exchange issued by a financial institution rated as Baa1 by Moody's rating agency and settled in June 2011. The non-current bank bills of exchange at 31 December 2010 included bills of exchange issued by a state-controlled financial institution which is a related party to the Group in the amount of RR 2,715 million. At 31 December 2011 non-current bank represent bills of exchange issued by financial institutions rated as Baa1and Ba1 by Moody's rating agency. Non-current bank bills of exchange are accounted for as held-to-maturity investments.

10. Cash and cash equivalents

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Cash at banks and in hand	240	6,753	771
Bank deposits	1,361	9,554	800
Total	**1,601**	**16,307**	**1,571**

Bank deposits are denominated in RR with interest rates within the range from 3.3% to 4.9% which may be redeemable on demand without restrictions.

Analysis of the credit quality of cash in bank balances and bank deposits is as follows:

Rating	Rating agency	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
D- to D rated*	Moody's	88	124	403
E+ rated*	Moody's	13	5,033	5
Unrated	–	1,500	11,150	1,163
Total		**1,601**	**16,307**	**1,571**

* the bank financial strength rating

Part of cash and cash equivalents are held in banks which do not have an international credit rating. Management believes them to be reliable counterparties basing on analysis performed by the Group and history of operations with them.

11. Accounts receivable and prepayments

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Trade receivables (Net of provision for impairment of RR 1,202 million, RR 704 million and RR 855 million, respectively)	3,265	2,090	1,856
Value added tax recoverable	1,128	61	454
Advances to suppliers and prepayments (Net of provision for impairment of RR 14 million, RR 15 million and RR 1 million, respectively)	153	54	1,219
Tax prepayments	260	15	35
Other receivables (Net of provision for impairment of RR 368 million, RR 36 million and RR 32 million, respectively)	304	440	87
Total	**5,110**	**2,660**	**3,651**

Management believes that the Group will be able to realize the net receivable amount through direct collections and that consequently the recorded value approximates their fair value.

11. Accounts receivable and prepayments (continued)

All impaired trade receivables, other receivables and advances to suppliers and prepayments are provided for. The movement of the provision is shown in the table below:

	2011	2010 (Restated)
At 1 January	**771**	**888**
Provision charged	965	164
Provision reversed	(152)	(281)
At 31 December	**1,584**	**771**

12. Inventories

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Fuel	1,483	1,039	1,158
Materials and supplies	1,208	992	975
Other	45	34	27
Total	**2,736**	**2,065**	**2,160**

The above inventory balances are recorded net of an obsolescence provision of RR 50 million, RR 55 million and RR 65 million as at 31 December 2011, 31 December 2010 and 31 December 2009, respectively.

As at 31 December 2011, 31 December 2010 and 31 December 2009, the inventory balances did not include any inventories pledged as collateral according to loan agreements.

13. Other current assets

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Bank deposits	9,200	–	–
Bank bills of exchange	171	3,753	142
Other	–	11	–
Total	**9,371**	**3,764**	**142**

Bank bills of exchange at 31 December 2011 were issued by financial institutions rated as Not Prime by Moody’s rating agency. Bank bills of exchange at 31 December 2010 were issued by a financial institution rated as Prime-2 by Moody’s rating agency and settled in May-June 2011. The financial institution which issued these bills of exchange is a state-controlled entity and is a related party to the Group.

Analysis of the credit quality of bank deposits with interest rates within the range from 4.50% to 7.73% is as follows:

Rating	Rating agency	31 December 2011
D- rated*	Moody's	2,000
E+ rated*	Moody's	4,000
Unrated	–	3,200
Total		**9,200**

* the bank financial strength rating

13. Other current assets (continued)

Part of deposits is held in banks which do not have an international credit rating. Management believes them to be reliable counterparties based on analysis performed by the Group and history of operations with them.

14. Equity

(a) Share capital

(Number of shares unless otherwise stated)	**31 December 2011**	**31 December 2010**	**31 December 2009**
Issued and outstanding shares – registered capital	65,451,744,495	44,643,192,918	44,643,192,918
Issued and outstanding shares – unregistered capital	–	20,808,551,577	–
Nominal value (in RR)	0.57478	0.57478	0.57478

(b) Treasury shares

As at 31 December 2011 and 31 December 2010, the number of treasury shares amounted to 15,831,017 ordinary shares comprising 0.024% of issued shares.

(c) Dividends

In accordance with Russian legislation, the Group distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. During the year ended 31 December 2011 and 31 December 2010 the Company neither declared nor paid any dividends.

(d) Additional issue of shares

In December 2010, in accordance with the decision of extraordinary shareholders meeting the share capital of OJSC OGK-1 was increased by the additional issue of 20,808,551,577 ordinary shares with nominal value of RR 0.57478. The offering price was RR 1.12 per share. The purpose of the additional issue of shares is to finance the construction of the Urengoyskaya power station. The corresponding changes to the Company's charter were made on 3 February 2011. The Group had no obligation for redemption of additional share issue as at 31 December 2011.

In February 2011 OJSC OGK-1 obtained the state registration of the amendments to the Charter of OJSC OGK-1 for the additional share issue and increase of share capital up to RR 37,620 million (65,451,744,495 ordinary shares with a nominal value of RR 0.57478 per share).

15. Income tax

(a) Income tax expense

The statutory corporate income tax rate in Russian Federation was 20% for the year ended 31 December 2011 and 31 December 2010. The 10% income tax rate was applied to NVGRES Holding Ltd. in accordance with Cyprus tax law. The 15.5% income tax rate was applied to Permskaya GRES due to local state tax relief.

	Year ended	
	31 December 2011	**31 December 2010 (Restated)**
Current income tax charge	(888)	(469)
Deferred income tax charge	(436)	(255)
Total income tax expense	**(1,324)**	**(724)**

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended	
	31 December 2011	**31 December 2010 (Restated)**
Profit before income tax	**5,942**	**4,217**
Theoretical income tax charge using the prevailing statutory tax rate of 20%	(1,188)	(843)
Deferred tax liabilities, previously unrecognized	(228)	–
Effect of different tax rates	157	107
Recognized deferred tax liability on investment in NVGRES Holding Ltd	(133)	(17)
Other non-taxable income/(expenses)	14	(49)
Under provided in prior periods	54	78
Total income tax expense	**(1,324)**	**(724)**

(b) Deferred tax

Differences between income tax accounting under IFRS and relevant taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes.

	31 December 2011	**Movements for the period recognized in profit or loss**	**31 December 2010 (Restated)**
Deferred tax liabilities	**(3,587)**	**(535)**	**(3,052)**
PP&E	(2,795)	(411)	(2,384)
Investments in joint venture	(770)	(133)	(637)
Other	(22)	9	(31)
Deferred tax assets	**212**	**99**	**113**
Accounts payable	75	70	5
Trade receivables	82	63	19
Inventories	8	–	8
Other	47	(34)	81
Deferred tax liabilities, net	**(3,375)**	**(436)**	**(2,939)**

15. Income tax (continued)

	31 December 2010	Movements for the period recognized in profit or loss	31 December 2009 (Restated)
Deferred tax liabilities	**(3,052)**	**(264)**	**(2,788)**
PP&E	(2,384)	(303)	(2,081)
Investments in joint venture	(637)	46	(683)
Other	(31)	(7)	(24)
Deferred tax assets	**113**	**9**	**104**
Trade receivables	5	(18)	23
Trade payables	19	19	–
Inventories	8	8	–
Other	81	–	81
Deferred tax liabilities, net	**(2,939)**	**(255)**	**(2,684)**

Pursuant to the option held by TNK-BP to purchase a further 25% minus two shares of NVGRES Holding Ltd. (see note 27(e)) the Group recognised 25% of the deferred tax liability in respect of the Group's investment in NVGRES Holding Ltd as at 31 December 2011, 31 December 2010 and 31 December 2009. The Group did not recognise a deferred tax liability in respect of the remaining investment because its ultimate realisation is within the control of the Group. As at 31 December 2011, the maximum amount of such unrecognized deferred tax liabilities equals RR 1,398 million (31 December 2010: RR 1,206 million; 31 December 2009: RR 1,366 million) and depends on the nature of their reversal.

16. Pension liabilities

The tables below provide information about the benefit obligations and actuarial assumptions used for the years ended 31 December 2011, 31 December 2010 and 31 December 2009.

Amounts recognized in the consolidated statements of financial position are as follows:

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Defined benefit obligations	471	468	382
Unrecognized actuarial gain	(1)	(13)	26
Unrecognized past service cost	(31)	(35)	(20)
Net liability	**439**	**420**	**388**

Amounts recognized in the consolidated statements of comprehensive income are as follows:

	Year ended	
	31 December 2011	31 December 2010 (Restated)
Current service cost	14	13
Interest cost	36	36
Net actuarial loss recognised in the period	1	1
Immediate recognition of vested prior service cost	(3)	19
Net expense recognized in the consolidated statement of comprehensive income	**48**	**69**

16. Pension liabilities (continued)

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

	31 December 2011	31 December 2010 (Restated)
Benefit obligation at the beginning of the year	468	381
Current service cost	14	13
Interest cost	36	36
Actuarial (gain)/loss	(11)	41
Past service cost	(7)	34
Benefits paid	(29)	(37)
Benefit obligations at end of the year	**471**	**468**

Reconciliation of the consolidated statements of financial position:

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Net liability at the beginning of year	420	388	387
Net expense recognized in the statement of comprehensive income	48	69	51
Employer contributions	(29)	(37)	(50)
Net liability at end of the year	**439**	**420**	**388**

Principal actuarial assumptions (expressed as weighted averages) are as follows:

Financial assumptions

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Discount rate	8.0%	8.0%	9.0%
Salary increase	7.5%	7.5%	8.0%
Inflation	6.0%	8.0%	6.5%

Demographic assumptions

Withdrawal rates assumption is as follows: expected staff turnover rates vary depending on employee past service in range from 14% p.a. for employees with 1 year of past service to 5% p.a. for those who have 10 or more years of service (31 December 2010: 13% and 4% accordingly).

Retirement ages assumption is as follows: average retirement ages are 58 years for men and 56 years for women. Similar retirement age assumption was used at 31 December 2010.

Mortality table: Russian population mortality table 1998.

	31 December 2011	31 December 2010 (Restated)
Present value of defined benefit obligations	471	468
Gains arising from experience adjustments on plan liabilities	8	22

17. Other non-current liabilities

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Decommissioning liability	138	–	–
Other non-current liabilities	23	134	6
Total	**161**	**134**	**6**

The Group has an obligation to restore disturbed lands occupied by ash dumps upon expiration of their useful lives.

The Group recognized a provision for these future decommissioning expenses (provision for land recultivation) in the amount of RR 138 million, which is included in other non-current liabilities with a corresponding increase in structures. The discount rate used to calculate the net present value of the future cash outflows relating to the land recultivation was 8.03% at 31 December 2011.

Other non-current liability at 31 December 2010 mainly represents non-current liability to a contractor at Urengoyskaya GRES which is expected to be settled in 2012 upon completion of works.

Change in provision for land recultivation

The movement of the provision is shown in the table below:

	2011
At 1 January	**–**
Provision charged	138
At 31 December	**138**

18. Loans and borrowings

	31 December 2011	31 December 2010	31 December 2009
Non-current loans and borrowings	**–**	**7,184**	**10,928**
Less: current portion of non-current loans and borrowings denominated in RR	–	(1,667)	(2,717)
Total non-current loans and borrowings	**–**	**5,517**	**8,211**

Loans and borrowings as of 31 December 2010 included a RR 1,600 million loan from a stated-controlled financial institution, a related party (31 December 2009: RR 2,900 million).

In December 2011 the Group fully repaid the remaining balance of loans and borrowings. During 2011 the Group's loans and borrowings were denominated in RR and bore effective interest rates ranging from 6% to 12% (2010: from 6% to 15%).

At 31 December 2011 the Group has unused open lines of credit amounting to approximately RR 12.0 billion (31 December 2010: RR 5.6 billion).

19. Accounts payable and accruals

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Trade payables	2,617	1,906	1,598
Advances received	29	80	–
Accruals	427	244	4
Other creditors	1,412	687	978
Total	**4,485**	**2,917**	**2,580**

Management believes that the majority of suppliers, balances of which are included into trade payables, comprise a single class, as they bear the same characteristics.

20. Taxes payable

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Property tax	80	126	89
Water tax	39	47	295
Unified social tax	28	25	13
Value added tax	23	616	25
Other taxes	37	44	25
Total	**207**	**858**	**447**

21. Revenue

	Year ended	
	31 December 2011	31 December 2010 (Restated)
Electric power	42,687	36,612
Capacity	11,912	11,544
Heating	622	623
Other	532	447
Total	**55,753**	**49,226**

22. Operating expenses, net

	Note	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Raw materials and consumables used, comprising		33,886	28,012
Fuel		*33,150*	*27,295*
Other materials		*736*	*717*
Purchased electric power and capacity for resale		4,741	5,428
Employee benefit expenses and payroll taxes		3,627	3,268
Third parties services, including:		3,530	3,051
Commission fees		*961*	*763*
Repairs and maintenance		*1,205*	*1,081*
Security expenses		*284*	*252*
Rent expenses		*264*	*239*
Insurance expenses		*249*	*87*
Transportation expenses		*71*	*49*
Consulting, legal and information expenses		*55*	*50*
Telecommunication services		*37*	*31*
Other		*404*	*499*
Depreciation of property, plant and equipment	8	2,267	2,117
Water usage expenses		1,014	741
Provision for impairment of accounts receivable – (release)/ charge	11	813	(117)
Taxes other than profit tax		719	899
Management services		720	720
Social charges		75	139
Impairment of available for sale financial assets		43	–
Amortisation of intangible assets		25	35
Loss on disposals of property, plant and equipment		32	116
Other expenses		514	406
Total		**52,006**	**44,815**

23. Finance income and costs, net

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Interest expense on loans and borrowings	(290)	(560)
Foreign exchange gain	–	2
Interest income on bank deposits and promissory notes	790	85
Effect of discounting of long-term accounts receivable/payable	(16)	23
Total	**484**	**(450)**

24. Earnings per share, basic and diluted (in RR)

	Year ended 31 December 2011	Year ended 31 December 2010 (Restated)
Weighted average number of ordinary shares issued and outstanding (million of shares)	65,436	44,627
Profit attributable to the shareholders of OJSC OGK-1 (million of RR)	4,618	3,493
Weighted average earnings per share – basic and diluted (in RR)	**0.071**	**0.078**

25. Interest in joint venture

The Group holds a 75% interest in NVGRES Holding Ltd. consolidated by equity method as a joint venture as, per the terms of the Shareholders Agreement between the Group and TNK-BP (Russian oil and gas company), control is jointly exercised. The following amounts represent the Group's 75% share of the assets and liabilities, revenue and expenses and results of the joint venture.

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Assets:			
Non-current assets	8,510	6,245	5,570
Current assets	8,255	8,612	8,903
Total assets	**16,765**	**14,857**	**14,473**
Liabilities:			
Non-current liabilities	517	372	377
Current liabilities	579	527	395
Total liabilities	**1,096**	**899**	**772**
Net assets	**15,669**	**13,958**	**13,701**
Proportionate interest in joint venture's capital commitments	**10,787**	**2,172**	**545**

	Year ended	
	31 December 2011	31 December 2010 (Restated)
Operating income and finance income	9,636	7,636
Operating expenses and finance costs	(7,705)	(7,088)
Income tax expense	(220)	(292)
Profit for the year	**1,711**	**256**

There are no contingent liabilities relating to the Group's interest in the joint venture.

26. Commitments

(a) Capital commitments

Future capital expenditures for which contracts have been signed except for proportionate interest in joint venture's commitments (Note 24) amounted to RR 8,445 million at 31 December 2011 (at 31 December 2010 – RR 13,110 million).

In accordance with the Russian Federation Government Resolution №89 dated 24 February 2010 "On certain issues regarding the organization of the long-term competitive capacity takeoff in the wholesale electricity (or capacity) market", Russian Federation Government Resolution # 238 dated 13 April 2010 "Pricing strategy of capacity trading on the wholesale electricity (capacity) market during the transition period" and Russian Federation Government Direction # 1334-r dated 11 August 2010 "The approved list of generating units, which will be used to supply capacity under contracts on capacity provision", Non-profit Partnership Council Market (hereinafter NP Council Market) in cooperation with electricity wholesales market participants developed a contractual basis for the sales of capacity of new generating units, which are being constructed in accordance with investment programs of suppliers, approved by the Government of Russian Federation within Investment Program of RAO UES.

26. Commitments (continued)

(a) Capital commitments (continued)

In accordance with new rules suppliers will sign agency agreement with CJSC CFS, OJSC ATS, NP Council Market and SO UES for sales of capacity under contracts on capacity provision. In accordance with this agreement CFS for and on behalf of the supplier will sign contracts on capacity provision with all wholesale electricity (capacity) market customers.

In November 2010 the Company had signed an agency agreement with CFS, OJSC ATS, NP Council Market and SO UES, under which CFS was to sign on behalf of the OJSC OGK-1 contracts on capacity provision. On 12 December 2010 CFS on behalf of the OJSC OGK-1 signed the contracts on provision of capacity from estimated generating units with total capacity of 1,190 MWth. Pursuant to the terms and conditions of the Agency Agreement, if the Group violates the timeframe for commissioning the generating assets, or fails to deliver sufficient capacity, the Group should pay a forfeit to the Agent, the size of which depends on the extent of the delay in the commissioning of the generating asset, the amount of the capacity that was not delivered and the price of this capacity under a long-term capacity contract. Management of the Group does not expect to default or fail on fulfilment of the above obligations under the contracts on the provision of capacity at 31 December 2011 and in future.

27. Contingencies

(a) Insurance

The Group holds insurance policies that cover its assets and other property, personnel, public liability or other risks insurable in accordance with the established business practice and applicable legislation of the Russian Federation. Accordingly, the Group is exposed to those risks for which insurance is not applicable, which have not been insured or are covered by standard exclusions under insurance contracts.

(b) Legal proceedings

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

(c) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the existing method of calculation of water tax.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the period of review. Under certain circumstances the review may cover longer periods.

27. Contingencies (continued)

(c) Tax contingencies (continued)

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

In addition, tax and other legislation do not address specifically all the aspects of the Group's reorganization related to reforming of the electric utilities industry. As such, there may be tax and legal challenges to the various interpretations, transactions, and resolutions that were a part of the reorganization and reform process.

(d) Environmental matters

The Group recognized an asset decommissioning liability in respect of ash dumps (Note 17). Other potential liabilities may 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. Currently, management believes that there are no significant exposures to environmental matters.

(e) TNK-BP Call Option

On 15 February 2008 OJSC OGK-1 and TNK-BP International Ltd signed an Agreement to jointly operate the existing units at the Nizhnevartovskaya power station operated by CJSC Nizhnevartovskaya GRES, a subsidiary of NVGRES Holding Ltd. and to finance and construct a third unit at that power station with a capacity of 800 MW. During 2009, the construction project was reviewed and the joint venture decided to construct blocks 3.1 and 3.2 with capacity of 410 MW each. According to the Agreement, OJSC OGK-1 has granted a written call option to TNK-BP which gives TNK-BP the right to buy additional 25% minus two shares in NVGRES Holding Ltd. at a price to be defined in future, which is defined as any day within 12 months after the date when the unit 3.1 passes the performance tests. The exercise price under this option is expected to be equal to the fair value at the date of the exercise of the option. The fair value of the call option at 31 December 2011 is nil. At 31 December 2011 the option has not been yet exercised. Management expects the option to be exercised not earlier than in September 2013.

28. Related parties

Related parties with whom the Group entered into significant transactions during the year ended 31 December 2011 and 31 December 2010 or had significant balances as at 31 December 2011 and 31 December 2010 are detailed below.

(a) Parent company

Beginning from 31 March 2011 JSC INTER RAO UES is the principal shareholder of OJSC OGK-1 (Note 1).

Information about material transactions with INTER RAO UES Group during the year ended 31 December 2011, and outstanding balances as at 31 December 2011 and 31 December 2010 are disclosed below:

28. Related parties (continued)

(a) Parent company (continued)

The Group's transactions with INTER RAO UES Group are disclosed below:

	Year ended	
	31 December 2011	**31 December 2010 (Restated)**
Electric power and capacity revenues	18,969	13,451
Expenses under agreement on transfer of powers of the sole executive body	720	720
Other income	4	8
Purchased electric power and capacity	1,024	662
Contribution to the research and development fund	230	–
Other expenses	129	101
Accrued interest under loan agreement, including	–	332
capitalized interest	–	292

The Group's transactions with INTER RAO UES Group are disclosed below:

	31 December 2011	**31 December 2010 (Restated)**	**31 December 2009 (Restated)**
Accounts receivable and prepayments	501	341	2
Advances issued for CAPEX	211	–	–
Accounts payable	72	110	224

(b) State-controlled entities

In the normal course of business the Group enters into transactions with other entities under control of the Government of the Russian Federation. Prices for natural gas, electric power, capacity and heat are based on tariffs set by FST and RECs. Bank loans are granted at market rates. Taxes are charged and paid under the Russian tax legislation.

As per management estimations, the total amount of significant transactions performed between the Group and other state-controlled entities for the year ended 31 December 2011 was approximately 14% of total electric power, capacity and heat sales, and approximately 93% of total electric power and capacity purchases (for the year ended 31 December 2010: approximately 17% and approximately 100%, respectively).

In August 2011 JSC INTER RAO UES transferred 19.00% of JSC OGK-1 shares to a state-controlled entity under a trust management agreement, as a result OGK-1 shares under trust management of this company has been increased to 19,13%.

(c) Management organization

Effective from 1 April 2011 LLC INTER RAO – Electricity Generation Management is a sole executive body for OJSC OGK-1. Expenses under agreement on transfer of powers of the sole executive body with LLC INTER RAO – Electricity Generation Management for the period from 1 April 2011 to 31 December 2011 comprised RR 540 million.

28. Related parties (continued)

(d) Directors' compensation

Key management personnel (the members of the Board of Directors and the Management Board of OJSC OGK-1) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Remuneration to the members of the Board of Directors is paid for attending the Board meetings; compensation of key management personnel (other than remuneration for attending the Board meetings) is determined by the terms of the employment contracts.

Total remuneration accrued to the members of the Board of Directors and the Management Board was as follows:

	Year ended	
	31 December 2011	**31 December 2010**
Remuneration for attending the Board meetings	5	7

Short-term compensations include personal income tax and are net of insurance contributions.

29. Subsequent events

On 15 March 2012 as a part of JSC Inter RAO UES's plans to unite power generating assets of OJSC OGK-1, OJSC WGC-3, and OJSC Inter RAO–Elektrogeneratsiya, the Board of Directors of JSC Inter RAO UES considered the management's proposals to optimize the ownership structure and management of power generating subsidiaries. The Board of Directors of JSC Inter RAO UES made a recommendation to convene extraordinary shareholders meeting to consider the reorganization plan proposed by management.