**OGK-2 GROUP**
**CONSOLIDATED FINANCIAL STATEMENTS**
**PREPARED IN ACCORDANCE WITH**
**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**
**FOR THE YEAR ENDED 31 DECEMBER 2012**

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**Auditors' Report**

To the Shareholders and Board of Directors of Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2").

We have audited the accompanying consolidated financial statements of OJSC "OGK-2" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and the consolidated statement of comprehensive income, changes in equity and cash flows for 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

Deputy Director of ZAO «KPMG» Titova T.E.

(power of attorney dated 28 October 2011 No. 50/11)

11 April 2013

Moscow, Russian Federation

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Г.Р.N.011585
КПМГ
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МОСКВА

**OGK-2 Group**
**Consolidated Statement of Financial Position as at 31 December 2012**
(in thousands of Russian Roubles)

| | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 114,100,762 | 106,497,335 |
| Intangible assets | 7 | 1,404,747 | 1,297,359 |
| Investments in equity accounted investees | 8 | 1,570,187 | - |
| Other non-current assets | 9 | 3,319,460 | 3,211,158 |
| **Total non-current assets** | | **120,395,156** | **111,005,852** |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 3,760,344 | 359,116 |
| Trade and other receivables | 11 | 16,684,384 | 13,585,399 |
| Inventories | 12 | 6,664,242 | 6,158,002 |
| Income tax prepayments | | 564 | 894,405 |
| Other current assets | 13 | 2,127,380 | - |
| **Total current assets** | | **29,236,914** | **20,996,922** |
| TOTAL ASSETS | | **149,632,070** | **132,002,774** |
| EQUITY AND LIABILITIES | | | |
| **Equity** | | | |
| Share capital | 14 | | |
| Ordinary shares | | 21,518,239 | 21,518,239 |
| Treasury shares | | (4,058,856) | (4,058,238) |
| Share premium | | 23,916,508 | 23,916,508 |
| Other reserves | | 23,000,552 | - |
| Retained earnings | | 44,367,809 | 41,097,814 |
| **Total equity** | | **108,744,252** | **82,474,323** |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 15 | 6,213,372 | 6,234,194 |
| Non-current debt | 16 | 20,250,627 | 27,168,240 |
| Retirement benefit obligations | 21 | 1,882,826 | 1,682,222 |
| Restoration provision | 22 | 511,133 | 521,670 |
| Other long-term liabilities | 17 | 714,153 | 241,261 |
| **Total non-current liabilities** | | **29,572,111** | **35,847,587** |
| **Current liabilities** | | | |
| Current debt and current portion of non-current debt | 18 | 3,314,372 | 5,601,708 |
| Trade and other payables | 19 | 6,835,449 | 7,431,510 |
| Other taxes payable | 20 | 594,945 | 597,478 |
| Income tax payable | | 525,822 | - |
| Restoration provision | 22 | 45,119 | 50,168 |
| **Total current liabilities** | | **11,315,707** | **13,680,864** |
| **Total liabilities** | | **40,887,818** | **49,528,451** |
| TOTAL EQUITY AND LIABILITIES | | **149,632,070** | **132,002,774** |

General Director D.N. Bashuk

Chief Accountant L.V. Klisch

Российская Федерация, Ставропольский край, Изобильненский район, Открытое акционерное общество «Вторая генерирующая компания оптового рынка электроэнергии» * 356128, Солнечнодольск * ОГК-2

11 April 2013

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 on pages 9 to 45

## Consolidated Income Statement for the year ended 31 December 2012

(in thousands of Russian Roubles, except for earning per ordinary share information)

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| Revenues | 23 | 104,213,387 | 104,895,639 |
| Operating expenses | 24 | (97,814,957) | (102,366,383) |
| Other operating items | | 50,519 | (311,344) |
| **Operating profit** | | **6,448,949** | **2,217,912** |
| Finance income | 25 | 204,953 | 138,849 |
| Finance costs | 26 | (2,700,571) | (1,934,398) |
| **Profit before income tax** | | **3,953,331** | **422,363** |
| Income tax charge | 15 | (929,958) | (412,213) |
| **Profit for the year** | | **3,023,373** | **10,150** |
| Attributable to: | | | |
| Shareholders of OJSC OGK-2 | | 3,023,373 | 10,150 |
| **Earning per ordinary share for profit attributable to the shareholders of OJSC OGK-2 – basic and diluted (in Russian Roubles)** | 27 | **0.0459** | **0.0002** |

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

(in thousands of Russian Roubles)

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Profit for the year** | **3,023,373** | **10,150** |
| Net change in fair value of available-for-sale investments (net of income tax) | (16,738) | (48,781) |
| **Total comprehensive income / (expense) for the year** | **3,006,635** | **(38,631)** |
| Attributable to: | | |
| Shareholders of OJSC OGK-2 | 3,006,635 | (38,631) |

## OGK-2 Group
## Consolidated Statement of Cash Flows for the year ended 31 December 2012
(in thousands of Russian Roubles)

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| **Profit before income tax** | | **3,953,331** | **422,363** |
| Adjustments to reconcile profit before income tax to net cash provided by operations: | | | |
| Depreciation of property, plant and equipment | 24 | 4,006,050 | 3,610,463 |
| (Reversal) / charge of property, plant and equipment impairment | 6 | (4) | 7,208 |
| Amortisation of intangible assets | 24 | 107,587 | 72,075 |
| Reversal of intangible assets impairment | 7 | (61,716) | - |
| Charge of provision for impairment of trade and other receivables | 24 | 549,666 | 1,206,926 |
| Reversal of provision for inventory obsolescence | 24 | (7,616) | (4,144) |
| Finance income | 25 | (204,953) | (138,849) |
| Finance costs | 26 | 2,700,571 | 1,934,398 |
| Increase in retirement benefit obligations | 24 | 154,423 | 145,446 |
| Loss on disposal of assets | 24 | 105,395 | 516,520 |
| Other non-cash items | | (137,041) | 515,979 |
| **Operating cash flows before working capital changes and income tax paid** | | **11,165,693** | **8,288,385** |
| Working capital changes: | | | |
| Increase in trade and other receivables | | (4,161,458) | (5,297,025) |
| Payments in respect of retirement benefit obligations | | (105,427) | (188,268) |
| Increase in inventories | | (643,397) | (294,203) |
| Decrease in other current assets | | - | 34,201 |
| Increase / (decrease) in trade and other payables | | 1,565,254 | (1,161,676) |
| Increase / (decrease) in other non-current liabilities | | 4,721,019 | (43,339) |
| Increase in taxes payable, other than income tax | | 74,273 | 267,989 |
| Income tax received / (paid) in cash | | 273,946 | (666,093) |
| **Net cash generated from operating activities** | | **12,889,903** | **939,971** |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment | | (19,166,033) | (17,146,175) |
| Proceeds from sale of property, plant and equipment | | 24,392 | 23,551 |
| Purchase of intangible assets | | (66,587) | (119,099) |
| Increase in other non-current assets | | - | (1,700) |
| Increase in deposits | | (2,127,380) | - |
| Investments in equity accounted investees | | (1,048,344) | - |
| Interest received | | 38,241 | 45,935 |
| **Net cash used in investing activities** | | **(22,345,711)** | **(17,197,488)** |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Prepayment for issued shares | 14 | 23,000,552 | - |
| Proceeds from short-term borrowings | | 6,626,350 | 25,529,822 |
| Proceeds from long-term borrowings | | 4,114,986 | 13,401,877 |
| Repayment of short-term borrowings | | (8,918,844) | (21,529,821) |
| Repayment of long-term borrowings | | (9,317,006) | - |
| Interest paid | | (2,257,378) | (1,664,458) |
| Payments under finance lease | | (159,168) | (105,250) |
| Finance lease advance | | (6,653) | (14,300) |
| Expenses for share issue | | (172,351) | (38,307) |
| Dividend paid by the Group to shareholders of OGK-2 | | (53,702) | (279,107) |
| Purchase of treasury shares | | - | (4,046,201) |
| Proceeds from sale of treasury shares | | 250 | - |
| **Net cash generated from financing activities** | | **12,857,036** | **11,254,255** |
| **Net increase / (decrease) in cash and cash equivalents** | | **3,401,228** | **(5,003,262)** |
| **Cash and cash equivalents at the beginning of the year** | 10 | **359,116** | **5,362,378** |
| **Cash and cash equivalents at the end of the year** | 10 | **3,760,344** | **359,116** |

## OGK-2 Group
## Consolidated Statement of Changes in Equity for the year ended 31 December 2012
(in thousands of Russian Roubles)

| | Share capital | Treasury shares | Share premium | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2011** | **11,872,828** | **(12,037)** | **23,916,508** | **-** | **51,121,762** | **86,899,061** |
| Profit for the year | - | - | - | - | 10,150 | 10,150 |
| Net change in fair value of available-for-sale investments | - | - | - | - | (48,781) | (48,781) |
| Total comprehensive expense for the year | - | - | - | - | (38,631) | (38,631) |
| Share issue (Note 14) | 9,645,411 | - | - | - | (9,683,718) | (38,307) |
| Dividends (Note 14) | - | - | - | - | (301,599) | (301,599) |
| Acquisition of treasury shares (Note 14) | - | (4,046,201) | - | - | - | (4,046,201) |
| **At 31 December 2011** | **21,518,239** | **(4,058,238)** | **23,916,508** | **-** | **41,097,814** | **82,474,323** |
| **At 1 January 2012** | **21,518,239** | **(4,058,238)** | **23,916,508** | **-** | **41,097,814** | **82,474,323** |
| Profit for the year | - | - | - | - | 3,023,373 | 3,023,373 |
| Net change in fair value of available-for-sale investments | - | - | - | - | (16,738) | (16,738) |
| Total comprehensive income for the year | - | - | - | - | 3,006,635 | 3,006,635 |
| Prepayment for issued shares (Note 14) | - | - | - | 23,000,552 | - | 23,000,552 |
| Dividends (Note 14) | - | - | - | - | (56,905) | (56,905) |
| Merger adjustments | - | - | - | - | 320,265 | 320,265 |
| Acquisition of treasury shares | - | (868) | - | - | - | (868) |
| Sale of treasury shares | - | 250 | - | - | - | 250 |
| **At 31 December 2012** | **21,518,239** | **(4,058,856)** | **23,916,508** | **23,000,552** | **44,367,809** | **108,744,252** |

(in thousands of Russian Roubles)

## Note 1. The Group and its operations

Open Joint Stock Company "The Second Generating Company of the Wholesale Electric Power Market" (OJSC "OGK-2", or the "Company") was established on 9 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

On 21 June 2011 the General Shareholders Meeting of OJSC "OGK-2" made a decision to merge OJSC "OGK-2" with another company controlled by Gazprom, Open Joint Stock Company "The Sixth Generating Company of the Wholesale Electric Power Market" ("OJSC "OGK-6") in accordance with terms specified in the OJSC "OGK-2" and OJSC "OGK-6" merger agreement (refer to Note 14). OJSC "OGK-6" was established on 17 March 2005 within the framework of Russian electricity sector restructuring in accordance with the Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003. The merger resulted in the transfer of assets and liabilities of OJSC "OGK-6" to OJSC "OGK-2". Upon completion of the merger OJSC "OGK-6" ceased to exist. The merger has been completed on 1 November 2011.

The Group's primary activities are generation and sale of electric and heat power. The Group consists of the following power stations (plants): Troitskaya GRES, Stavropolskaya GRES, Pskovskaya GRES, Serovskaya GRES, Surgutskaya GRES-1, Adlerskaya TES, Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES.

The Company is registered by the Izobilnensk District Inspectorate of the RF Ministry of Taxation of Stavropol Region.

The Company's office is located at 101-3, Vernadskogo Avenue, 119526, Moscow, Russian Federation.

***Changes in the Group`s structure.*** OJSC "OGK-2" and its following subsidiaries and equity accounted investees form the OGK-2 Group ("the Group"):

| | % owned | |
|---|---|---|
| | **31 December 2012** | **31 December 2011** |
| LLC "OGK-Investproekt" | 49% | 100% |
| LLC "OGK-2 Finance" | 100% | 100% |
| LLC "Centr 112" | 100% | - |

In August 2012 OJSC "OGK-2" set up a subsidiary LLC "Centr 112", the purpose of which is to ensure fire safety of OJSC "OGK-2".

On 23 July 2012 the Board of Directors of the Company decided to approve OJSC "Mosenergo" as a new participant of LLC "OGK-Investproekt" with corresponding increase of LLC "OGK-Investproekt" share capital paid by OJSC "Mosenergo" in the amount of RR 551,640 thousand as at 20 September 2012. As a result of this, in September 2012 the share of OJSC "OGK-2" in LLC "OGK-Investproekt" was reduced from 100% to 49% (see also Note 8).

The carrying amount of disposed assets and liabilities is presented below:

| | **As at the date of disposal** |
|---|---|
| Cash and cash equivalents | 49,583 |
| Trade and other receivables | 1,026,151 |
| Property, plant and equipment | 6,904,219 |
| Other assets | 257 |
| Non-current debt | (1,739,553) |
| Trade and other payables | (5,708,215) |
| Other liabilities | (432) |
| **Net assets value** | **532,010** |

***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 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.

***Relations with the state and current regulation.*** As at 31 December 2012 the Company was controlled by Gazprom, the largest Russian gas production company.

Until 1 July 2008, Russian Open Joint Stock Company for Energy and Electrification Unified Energy System of Russia ("RAO UES") owned 65.47% of the Company, on 1 July 2008 as part of electric industry restructuring process RAO UES ceased to exist as a separate legal entity. Also as a result of the restructuring process Gazprom Group has obtained control over the Company at this date.

Gazprom Group, in its turn, is controlled by the Russian Federation, therefore, the Russian Government is the ultimate controlling party of the Group as at 31 December 2012 and 31 December 2011.

The Group's customer base includes a large number of entities controlled by or related to the State. The list of the Group's major fuel suppliers includes subsidiaries of Gazprom.

The government of the Russian Federation directly affects the Group's operations through regulations of wholesale sales of electricity (capacity) and retail sales of heat exercised by the Federal Tariff Service ("FTS") and the tariffs regulation executive authorities. JSC "System Operator of the United Power System" ("SO UPS"), which is controlled by the Russian Federation represented by the Federal executive body for state property management, regulates operations of generating assets of the Group.

As described in Note 30, the government's economic, social and other policies could have material effects on the operations of the Group.

***Changes in the industry.*** In January 2011 the process of energy market liberalization, which had started in 2006, was completed. From that moment a competitive wholesale market has been in operation, where electricity and capacity are sold at individual tariffs (prices) as separate types of commodities.

*Electricity market*

The wholesale electricity market is divided into several segments according to transaction terms and delivery periods: the regulated contract segment, the free contract segment, the day-ahead market and the balancing market.

As of 2011 Regulated Contracts ("RCs") in wholesale market prices zones may only be concluded for the supply of electricity and capacity to the population, to consumer groups equated to the population. Prices (tariffs) for the supply of electricity and capacity under RCs are calculated according to price indexation formulae determined by the relevant federal executive body responsible for state tariff regulation.

Electricity volumes not covered by RCs are sold at non-regulated prices under Free Contracts ("FCs"), the Day-Ahead Market ("DAM") and the Balancing Market ("BM").

*Capacity market*

Since the 1st June 2008 capacity is primarily traded based on competitive capacity selection ("CCS") conducted by the SO UPS. Wholesale market participants that have successfully completed the CCS admission procedure may submit bids for volumes not exceeding their maximum available capacity included by the FTS in the forecast balance for the relevant regulation period.

The transitional capacity market allowed to sell a part of capacity at non-regulated prices, under Free Electricity and Capacity Supply Contracts ("FECC") and purchase and sell capacity based on competitive selection results. Resolution of the Government of the Russian Federation №89 dated 24 February 2010 approved amendments to the Wholesale Market Rules that provide for the launch of the Long-term Capacity Market ("LCM").

Among the mechanisms of selling capacity in the LCM are:

- sale/purchase of capacity selected as a result of competitive capacity selection under capacity sale and purchase contracts concluded based on the results of competitive capacity selection;
- sale/purchase of capacity under free capacity sale and purchase contracts;
- sale/purchase of capacity under capacity supply contracts using new generating facilities ("CSC");
- sale/purchase of capacity of must-run generators;

- sale/purchase of capacity under RCs (in order to supply the population and equated consumers) at prices are calculated according to price indexation formulae determined by the relevant federal executive body responsible for state tariff regulation.

In December 2010 the capacity supply contract (CSC) signature campaign was completed. A thermal generating facility commissioned under a capacity supply contract is guaranteed capacity payments for 10 years, ensuring the compensation of capital expenditures and pre-determined operating costs.

## Note 2. Basis of preparation

***Statement of compliance.*** These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related interpretations adopted by the International Accounting Standards Board ("IASB").

The Company and each subsidiary of the Company individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the RAR. The accompanying financial statements are based on the statutory records adjusted and reclassified for the purpose of fair presentation in accordance with IFRS.

***Basis of measurement.*** The financial statements are prepared on the historical cost basis except financial investments classified as available-for-sale.

***Functional and presentation currency.*** The national currency of the Russian Federation is the RR, which is the functional currency of the Company and its subsidiaries and the currency in which these financial statements are presented. All financial information presented in RR has been rounded to the nearest thousand.

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

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

*Impairment provision for trade and other receivables*

The impairment provision for trade and other receivables is based on the Group's assessment of whether the collectability of specific customer accounts worsened compared to prior estimates. If there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates, the actual results could differ from these estimates. See effect of these critical accounting estimates and assumptions in Note 11.

*Impairment of property, plant and equipment*

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated income statement in the period in which the reduction is identified. If conditions change and management determines that the value of property, plant and equipment and assets under construction has increased, the impairment provision will be fully or partially reversed. See effect of these critical accounting estimates and assumptions in Note 6. As described in Notes 1 and 30, the Government's economic, social and other policies could have material effects on the operations of the Group.

*Useful lives of property, plant and equipment*

The estimation of the useful lives of an items of property, plant and equipment 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 for future depreciation rates. See effect of these critical accounting estimates and assumptions in Note 6.

*Tax contingencies*

Russian tax legislation is subject to varying interpretations and changes, which can occur frequently. Where the Group management believes it is probable that their interpretation of the relevant legislation and the Group's tax positions cannot be sustained, an appropriate amount is accrued for in these consolidated financial statements. See effect of these critical accounting estimates and assumptions in Note 30.

*Restoration provision*

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur. See effect of these critical accounting estimates and assumptions in Note 22.

## Note 3. New accounting developments

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IAS 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively.

IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.* The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Standard has not yet been endorsed in the Russian Federation.

IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The amendment is expected to have no significant impact on the Group's consolidated financial statements.

IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31s, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

Amendment to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted.

Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2013. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

The Group has not yet analysed the likely impact of the new as Standards, amendments to Standards and Interpretations on its financial position or performance, except as stated above.

## Note 4. Summary of significant accounting policies

***Principles of consolidation.*** The financial statements comprise the consolidated financial statements of the Company and those entities whose operations are controlled by the Company.

*A) Subsidiaries*

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Non-controlling interest is disclosed as part of equity.

*B) Transactions eliminated on consolidation*

Intercompany balances and transactions and any unrealized gains arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

***Equity accounted investees.*** Equity accounted investees are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint venture. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Equity accounted investees are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. Unrealised gains on transactions between the Group and its equity accounted investees are eliminated to the extent of the Group's interest in the equity accounted investees; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each equity accounted investees is carried in the consolidated statement of financial position at an amount that reflects cost, including the goodwill at acquisition, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognized in equity. Provisions are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an equity accounted investees reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the equity accounted investees.

***Transfers of businesses from parties under common control.*** The Group was formed by the combination of a number of businesses under common control. Contributions to share capital of shares in subsidiaries (businesses) from parties under common control are accounted for using predecessors basis of accounting. Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities of the subsidiaries transferred under common control are accounted for at the predecessor entity's carrying amounts. Because of the consequent use of the predecessor basis of accounting, the principal component of the net equity recognised for the Group is based on the historic carrying value of the net assets of the businesses contributed as recorded in the IFRS financial records of the predecessor enterprises, rather than the fair values of those net assets. In accordance with the predecessor basis of accounting any difference between the carrying amount of net assets and the nominal value of share capital contributed and share premium is accounted for in these consolidated financial statements as retained earnings.

***Foreign currency.*** Monetary assets and liabilities, held by the Group and denominated in foreign currencies at the reporting date, are translated into RR at the exchange rates prevailing at that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of the monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(in thousands of Russian Roubles)

The official Russian Rouble to US dollar exchange rates as determined by the Central Bank of the Russian Federation were 30.3727 and 32.1961 as at 31 December 2012 and 31 December 2011, respectively. The official RR to EURO exchange rates as determined by the Central Bank of the Russian Federation were 40.2286 and 41.6714 as at 31 December 2012 and 31 December 2011, respectively.

***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 consolidated financial statements are authorized for issue.

***Property, plant and equipment.*** Following the predecessor basis of accounting property, plant and equipment were recognized at the carrying value determined in accordance with IFRS by the predecessors.

Property, plant and equipment are stated at depreciated cost less impairment. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated income statement. An impairment loss recognised in prior years is reversed if there has been an increase in the estimated fair value or value in use used to determine an asset's recoverable amount.

Renewals and improvements are capitalised and the assets replaced are retired. The cost of repair and maintenance is expensed as incurred. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated income statement as incurred.

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

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation of property, plant and equipment, evaluated by the independent appraisers at 31 December 1997, was calculated using depreciation rates based on remaining useful lives identified on the date of evaluation.

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

The remaining useful lives, in years, are as follows:

| Classes of property, plant and equipment | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Production buildings | 24-40 | 25-42 |
| Constructions | 6-32 | 7-30 |
| Energy machinery and equipment | 8-29 | 7-24 |
| Other machinery and equipment | 2-19 | 1-24 |
| Other | 2-11 | 2-18 |

***Financial instruments - key measurement terms.*** Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

*Fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

*Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

*Amortised cost* is the amount at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Classification of financial assets.*** The Group classifies its financial assets into the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Loans and receivables.* Loans and receivables are non-derivarive financial assets with fixed or determinable payment terms, which are not quoted on an active market. These assets are included into the current assets except when the maturity is greater than 12 months after the reporting date. These assets are classified as non-current assets.

*(b) Available-for-sale investments.* Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

***Initial recognition of financial instruments.*** All financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions involving a similar instrument or by a valuation technique whose inputs include data from observable markets.

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

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

***Available-for-sale investments.*** Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive a dividend is established and it is probable that the dividends will be received. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

***Cash and cash equivalents.*** Cash comprises cash in hand and cash deposited on demand at banks. Cash equivalents comprise short-term highly liquid investments that are readily convertible into cash and have a maturity of three months or less from the date of acquisition and are subject to insignificant changes in value.

***Trade and other receivables.*** Trade and other receivables are recorded inclusive of value added taxes. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In practice, the entity has estimated that the nominal amount of trade and other receivables approximates the fair value at inception. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate for similar borrowers. The carrying amount of the asset is reduced through the use of an impairment provision account, and the amount of the loss is recognised in the income statement within operating expenses. When a receivable is uncollectible, it is written off against the impairment provision account for receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

***Derecognition of non-derivative financial liabilities.***The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. 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 and trade and other payables.

***Trade and other payables and accrued charges***. Trade and other payables are stated inclusive of value added tax. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If trade and other payables are restructured and the discounted present value of the cash flows under the restructured terms discounted using the original effective interest rate differs by more than ten percent from the discounted present value of the remaining cash flows of the original financial liability, then the fair value of the restructured payable is measured as the discounted present value of the cash flows under the restructured terms. In this case the amount of the discount is credited to the income statement (finance costs) as a gain on restructuring, and the non-current portion of the discounted payable is classified as other non-current liabilities. The discount is amortized as interest expense.

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

***Other reserves.*** Other reserves in equity represents prepayment for issued shares, which are not registered by state authorities at the reporting date.

***Treasury shares.*** Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners 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 attributable to the Company's owners.

***Debt.*** Debt is recognized initially at its fair value. In subsequent periods, debt is stated at amortized cost using the effective yield method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the income statement as an interest expense over the period of the debt obligation.

***Environmental liabilities.*** Liabilities for environmental remediation are recorded where there is a present legal obligation as a result of past events, the payment is probable and reliable estimates can be made.

***Value added tax on purchases and sales (VAT).*** Output VAT related to sales is payable to tax authorities on the earlier of (a) receipt of advance from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of goods or services and the respective VAT invoice. Input VAT from advances paid to suppliers after 1 January 2009 is recoverable upon advance payment provided the receipt of respective VAT invoice.

The tax authorities permit the settlement of VAT on net basis. VAT related to sales and purchases is recognized in the statement of financial position at nominal value on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

***Inventories.*** Inventories are valued at the lower of net realizable value and weighed average acquisition cost. Provision is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

***Intangible assets.*** The Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences. Acquired computer software and licences, are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. Maintenance costs associated with computer software are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives.

Intangible assets are reviewed for impairment whenever the events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

***Income tax.*** The income tax expense represents the sum of the tax currently payable and deferred income tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

***Deferred income tax.*** Deferred tax is provided using the balance sheet liability method for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the 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 or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. 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 utilized.

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

***Prepayments/Advances paid.*** Prepayments/advances paid are carried at cost less provision for impairment. A prepayment/advance paid is classified as non-current when the goods or services relating to the prepayment/advance paid are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments/ advances paid to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Advances paid to capital contractors and to acquire intangible assets are included into carrying amount of construction in progress balance of property, plant and equipment and intangible assets balance, respectively, excluding related input VAT. Input VAT from the advances paid is included into carrying amount of other non-current assets. The input VAT is stated at its nominal value. Other prepayments/advances paid offset when the goods or services relating to the prepayments/advances are received. If there is an indication that the assets, goods or services relating to a prepayment/advances paid will not be received, the carrying value of the prepayment advance paid is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

***Borrowing costs.*** Prior to 1 January 2009, the Group recognised all borrowing costs as an expense in the period in which they are incurred.

Starting from 1 January 2009 the Group adopted revised IAS 23 Borrowing Costs. The main change is the removal of the option of immediately recognising as an expense borrowing costs related to assets that take a substantial period of time to get ready for use or sale.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (i) the Group incurs expenditures for the qualifying asset; (ii) it incurs borrowing costs; and (iii) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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

***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 (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

***Restoration provision.*** Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of the item 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. Changes in the measurement of an existing asset retirement obligation result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate. These changes adjust the cost of the related asset in the current period for assets carried under the cost model. The Group has an obligation to restore the surface of ash dumps when they are full.

***Finance leases.*** 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 in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of future finance charges, are included in debts. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest cost is charged to the income statement over the lease period using the effective interest method.

***Operating 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 counterparties to the lease.

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

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

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

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

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

The effect of curtailment or settlement of a defined benefit plan is recognised immediately in the income statement.

***Revenue recognition.*** Revenue is recognized on the delivery of electricity, capacity, heat and provision of other services during the period. Revenues are measured at the fair value of consideration received or receivable. Revenue amounts are represented exclusive of value added tax. Effective 1 January 2010 the Group started to present electricity purchases entered into to support a delivery of non-regulated bilateral contracts net within revenue.

***Segment reporting.*** Operating segments are operations that generate revenue and incur expenses that are covered by separate financial information regularly submitted to the decision-making body which is represented by the Company's Management Board. The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segment's operating efficiency. The Group discloses seven reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Kirishskaya GRES, Ryazanskaya GRES, Novochercasskaya GRES. Pskovskaya GRES, Krasnoyarskaya GRES-2, Cherepovetskaya GRES and Adlerskaya TES are included in other operating segments based on quantitive criteria.

***Earnings per share.*** The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

(in thousands of Russian Roubles)

## Note 5. Related Parties

Information on transactions and balances with related parties is presented below. All transactions were made in Russian Federation and in Russian Roubles. Transactions with related parties have been made mostly on the same terms and conditions as similar operations with the parties external to the Group. Prices for natural gas and heat are based on tariffs set by FST, prices for electricity and capacity are based on tariffs set by FST and also based on competitive takeoff on the wholesale electricity (capacity) market. Loans are granted at market rates. Bank deposits are invested at market rates.

***Transactions with Gazprom Group and its associates***

Transactions with Gazprom Group were as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| *Sales:* | | |
| Sales of electricity and capacity | 6,278,807 | 10,533,902 |
| Sales of heat | 394 | 333 |
| Other sales | 331,539 | 21,525 |
| *Other income* | 49 | 44 |
| *Purchases:* | | |
| Purchases of gas | 39,343,828 | 42,680,503 |
| Other purchases | 1,377,258 | 1,032,000 |
| *Other expenses* | 9,700 | 3,102 |

Balances with Gazprom Group were as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Bank accounts | 82 | 823 |
| Trade and other receivables | 636,574 | 564,467 |
| Prepayment for issued shares (equity) | 23,000,000 | - |
| Loans (non-current debt) | - | 6,901,877 |
| Trade and other payables | 881,713 | 601,901 |

Interest expense accrued in respect of loans for the year ended 31 December 2012 was RR 492,010 thousand (for the year ended 31 December 2011: RR 87,436 thousand).

The guarantees from OJSC "Gazprombank" equals RR 2,946 thousand as at 31 December 2012 (as at 31 December 2011: nil).

***Transactions with state-controlled entities and its associates***

In the normal course of business the Group enters into transactions with other entities under Government control (in addition to transactions with Gazprom Group), including sales of electricity and capacity, heat, purchases of electricity and capacity resources, services and other transactions. These transactions (exept for sales and purchases of electricity and capacity) are not significant either individually or collectively.

Information concerning sales and purchases of electricity and capacity with state-controlled entities is presented below:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Sales of electricity and capacity | 22,108,728 | 22,210,242 |
| Charge of provision for impairment of trade receivables | 728,625 | 1,097,769 |
| Reversal of provision for impairment of trade receivables | (446,285) | (66,091) |
| Purchases of electricity and capacity | 8,592,655 | 8,575,160 |

(in thousands of Russian Roubles)

Significant balances with state-controlled entities were as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade and other receivables, gross | 4,111,936 | 3,436,396 |
| Provision for impairment of trade and other receivables | (2,088,193) | (1,856,575) |
| Trade and other payables | 770,167 | 725,758 |

The guarantees from OJSC "VTB" equal zero as at 31 December 2012 (as at 31 December 2011: RR 3,300,000 thousand). The guarantees from OJSC "Sberbank" equal RR 3,435,313 thousand as at 31 December 2012 (as at 31 December 2011: nil).

***Transactions with key management***

Compensation is paid to members of the Management Board of the Company for their services in full time management positions. The compensation is made up of a contractual salary and a performance bonus depending on results for the period according to Russian statutory financial results of the Company. The compensation is approved by the Board of Directors. Discretionary bonuses are also payable to members of the Management Board, which are approved by the Chairman of the Management Board according to his perception of the value of their contribution.

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

Total remuneration accrued to the members of the Board of Directors and Management Board is presented below:

| | Year ended 31 December 2012 | | Year ended 31 December 2011 | |
|---|---|---|---|---|
| | Expenses | Accrued liabilities | Expenses | Accrued liabilities |
| Remuneration | 109,448 | 2,668 | 267,721 | 2,733 |
| Social funds contribution | 1,690 | - | 3,148 | - |
| Medical insurance | 2,997 | - | 1,317 | - |
| Retirement benefit obligations | 3,205 | 25,187 | 4,133 | 28,652 |

***Transactions with other related parties***

Transactions with other related parties represent transactions with the pension funds of energy industry (NPF Electroenergetiki and NPF Gazfond). For the year ended 31 December 2012 the Group has expenses of RR 47,247 thousand from transactions with NPF Electroenergetiki and NPF Gazfond (for the year ended 31 December 2011: RR 154,717 thousand).

(in thousands of Russian Roubles)

## Note 6. Property, plant and equipment

| | Production buildings | Construc-tions | Energy machinery and equipment | Other machinery and equipment | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Opening balance as at 1 January 2012** | **35,264,900** | **16,787,828** | **28,667,762** | **11,780,518** | **1,549,213** | **60,030,913** | **154,081,134** |
| Additions | - | 2,181 | 168 | 35,575 | 141,554 | 18,510,242 | 18,689,720 |
| Transfer | 2,446,697 | 2,975,267 | 15,564,447 | 2,388,733 | 33,460 | (23,408,604) | - |
| Disposals | (63,334) | (162,182) | (133,961) | (89,673) | (95,022) | (19,092) | (563,264) |
| Disposal of subsidiary | - | - | - | (50,744) | (3,161) | (6,850,595) | (6,904,500) |
| **Closing balance as at 31 December 2012** | **37,648,263** | **19,603,094** | **44,098,416** | **14,064,409** | **1,626,044** | **48,262,864** | **165,303,090** |
| **Accumulated depreciation (including impairment)** | | | | | | | |
| **Opening balance as at 1 January 2012** | **(15,413,627)** | **(9,451,315)** | **(15,914,039)** | **(5,508,610)** | **(966,573)** | **(329,635)** | **(47,583,799)** |
| Charge for the period | (628,804) | (778,597) | (1,641,804) | (891,512) | (95,382) | - | (4,036,099) |
| Reversal of impairment | - | - | - | - | - | 4 | 4 |
| Disposals | 39,287 | 112,194 | 106,467 | 75,610 | 80,547 | 3,180 | 417,285 |
| Disposal of subsidiary | - | - | - | - | 281 | - | 281 |
| **Closing balance as at 31 December 2012** | **(16,003,144)** | **(10,117,718)** | **(17,449,376)** | **(6,324,512)** | **(981,127)** | **(326,451)** | **(51,202,328)** |
| **Net book value as at 31 December 2012** | **21,645,119** | **9,485,376** | **26,649,040** | **7,739,897** | **644,917** | **47,936,413** | **114,100,762** |
| **Net book value as at 31 December 2011** | **19,851,273** | **7,336,513** | **12,753,723** | **6,271,908** | **582,640** | **59,701,278** | **106,497,335** |

| | Production buildings | Construc-tions | Energy machinery and equipment | Other machinery and equipment | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Opening balance as at 1 January 2011** | **34,954,040** | **16,029,174** | **29,082,518** | **8,989,850** | **1,365,105** | **45,906,647** | **136,327,334** |
| Additions | 46,771 | 45,693 | 14 | 329,209 | 204,237 | 17,541,000 | 18,166,924 |
| Transfer | 357,547 | 550,106 | 1,083,267 | 1,359,903 | 22,039 | (3,372,862) | - |
| Disposals | (93,440) | (86,242) | (122,319) | (25,122) | (42,129) | (43,872) | (413,124) |
| Reclassification | (18) | 249,097 | (1,375,718) | 1,126,678 | (39) | - | - |
| **Closing balance as at 31 December 2011** | **35,264,900** | **16,787,828** | **28,667,762** | **11,780,518** | **1,549,213** | **60,030,913** | **154,081,134** |
| **Accumulated depreciation (including impairment)** | | | | | | | |
| **Opening balance as at 1 January 2011** | **(14,809,535)** | **(8,731,090)** | **(15,663,231)** | **(3,832,037)** | **(859,914)** | **(328,576)** | **(44,224,383)** |
| Charge for the period | (653,152) | (599,680) | (1,253,061) | (961,383) | (143,187) | - | (3,610,463) |
| Charge of impairment | - | - | - | - | - | (7,208) | (7,208) |
| Disposals | 49,044 | 53,165 | 90,194 | 23,208 | 36,495 | 6,149 | 258,255 |
| Reclassification | 16 | (173,710) | 912,059 | (738,398) | 33 | - | - |
| **Closing balance as at 31 December 2011** | **(15,413,627)** | **(9,451,315)** | **(15,914,039)** | **(5,508,610)** | **(966,573)** | **(329,635)** | **(47,583,799)** |
| **Net book value as at 31 December 2011** | **19,851,273** | **7,336,513** | **12,753,723** | **6,271,908** | **582,640** | **59,701,278** | **106,497,335** |
| **Net book value as at 31 December 2010** | **20,144,505** | **7,298,084** | **13,419,287** | **5,157,813** | **505,191** | **45,578,071** | **92,102,951** |

Construction in progress as at 31 December 2012 and 31 December 2011 includes prepayments for property, plant and equipment in the amount of RR 18,564,075 thousand and RR 23,510,369 thousand respectively.

The Group capitalized borrowing costs attributable to the acquisition, construction or production of an asset in the amount of RR 28,007 thousand (2011: RR 15,440 thousand), with a capitalisation rate of 7.25% (2011: 7.25%).

The assets received by the Group as a result of the merger with its predecessors did not include the land on which the Group's buildings and facilities are situated. The Group has the right to rent this land. In accordance with Russian legislation this right should be formalized either into purchase of this land upon application to the state registration body, or into lease of this land prior to 1 January 2015. As at 31 December 2012 the Group own land (included in the group "Other") with the carrying amount of RR 66,551 thousand (as at 31 December 2011: RR 64,407 thousand).

(in thousands of Russian Roubles)

Capitalization of ash dump restoration costs is recognised within the group **"Constructions"** (see Note 22).

As at 31 December 2012 the advances given to major contractors: OJSC "E4 Group" to build a power unit on site of Serovskaya GRES amounted to RR 3,550,693 thousand (net of VAT), CJSC "QUARTZ-Novie Technologii" to build a power unit on site of Troitskaya GRES amounted to RR 12,664,260 thousand (net of VAT) and CJSC "PF VIS" for construction of a power unit on site of Novocherkasskaya GRES amounted to RR 1,865,935 thousand (net of VAT) (as at 31 December 2011: RR 7,217,993 thousand (net of VAT) OJSC "E4 Group", RR 12,617,121 thousand (net of VAT) CJSC "QUARTZ-Novie Technologii", RR 1,093,886 thousand (net of VAT) CJSC "PF VIS"). The respective input VAT is recognised within other non-current assets balance (see Note 9).

The return of the advance payments made to CJSC "PF VIS" for construction of a power unit on site of Novocherkasskaya GRES during the year in the amount of RR 1,865,935 thousand (net of VAT) in case of non-fulfilment of construction obligations was guaranteed by OJSC "BANK "ROSSIYA" in the amount of RR 2,278,840 thousand (as at 31 December 2011: RR 1,631,834 thousand).

The return of the advance payments made to CJSC "QUARTZ-Novie Technologii" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2012 in the amount of RR 3,453,313 thousand was guaranteed to the Group by OJSC "Sberbank" and in the amount of RR 12,672,692 thousand was guaranteed by the contract of pledge of property rights by OJSC "QUARTZ-Novie Technologii" (as at 31 December 2011: RR 3,300,000 thousand by OJSC "VTB" and RR 12,672,692 thousand by OJSC "QUARTZ-Novie Technologii" respectively).

The return of the advance payments made to OJSC "E4 Group" to secure the contractor's obligations under the general construction contract with the Group as at 31 December 2012 in the amount of RR 5,213,936 thousand was guaranteed by the contract of pledge of property rights by OJSC "E4 Group" (as at 31 December 2011: RR 5,213,936 thousand).

### *Impairment*

The impairment provision balance included in accumulated depreciation as at 31 December 2012 in the amount of RR 326,451 thousand (as at 31 December 2011: RR 329,635 thousand) relates to the assets under construction that have been indefinitely suspended for further construction and are not included in the Group's investment program (see Note 28).

### *Change in classification of Property, plant and equipment*

For the purpose of accurate presentation in the consolidated financial statement of one object of property, main production building of Ryazanskaya GRES, this object has been reclassified from "Other machinery and equipment" into "Production buildings". The effect of changes in comparative information is presented below:

| | As previously reported | | Reclassification | | After reclassification | |
|---|---|---|---|---|---|---|
| **Cost** | **Production buildings** | **Other machinery and equipment** | **Production buildings** | **Other machinery and equipment** | **Production buildings** | **Other machinery and equipment** |
| **Opening balance as at 1 January 2011** | **31,645,204** | **12,298,686** | **3,308,836** | **(3,308,836)** | **34,954,040** | **8,989,850** |
| Transfer | 313,604 | 1,403,846 | 43,943 | (43,943) | 357,547 | 1,359,903 |
| **Closing balance as at 31 December 2011** | **31,912,121** | **15,133,297** | **3,352,779** | **(3,352,779)** | **35,264,900** | **11,780,518** |
| **Accumulated depreciation (including impairment)** | | | | | | |
| **Opening balance as at 1 January 2011** | **(13,083,487)** | **(5,558,085)** | **(1,726,048)** | **1,726,048** | **(14,809,535)** | **(3,832,037)** |
| Charge for the period | (615,837) | (998,698) | (37,315) | 37,315 | (653,152) | (961,383) |
| **Closing balance as at 31 December 2011** | **(13,650,264)** | **(7,271,973)** | **(1,763,363)** | **1,763,363** | **(15,413,627)** | **(5,508,610)** |
| **Net book value as at 31 December 2011** | **18,261,857** | **7,861,324** | **1,589,416** | **(1,589,416)** | **19,851,273** | **6,271,908** |
| **Net book value as at 31 December 2010** | **18,561,717** | **6,740,601** | **1,582,788** | **(1,582,788)** | **20,144,505** | **5,157,813** |

(in thousands of Russian Roubles)

### *Finance lease*

The Group leased certain equipment under a number of finance lease agreements. At the end of the leases the Group has the option to purchase the equipment at a beneficial price. The net book value of leased property, plant and equipment is presented below:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Energy machinery and equipment | 44,557 | 48,238 |
| Other machinery and equipment | 200,411 | 196,287 |
| Other | 244,249 | 117,042 |
| **Total** | **489,217** | **361,567** |

The leased equipment secures lease obligations.

### *Operating lease*

The Group leases a number of land plots owned by local governments and real estate under operating leases. Lease payments are determined by lease agreements. Lease agreements are concluded for the different periods. Part of the lease contracts is concluded for a year with right of future prolongation, maximum lease period is 49 years.

Operating lease rentals are payable as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Not later than one year | 664,862 | 616,193 |
| Later than one year and not later than five years | 1,821,841 | 1,489,902 |
| Later than five years and not later than ten years | 1,063,099 | 620,992 |
| Later than ten years | 5,213,888 | 1,973,651 |
| **Total** | **8,763,690** | **4,700,738** |

The land areas leased by the Group are the territories on which the Group's electric power stations and other assets are located. Lease payments are reviewed regularly to reflect market rentals.

## Note 7. Intangible assets

| | SAP R-3 software | System NSI software | Other intangibles | Total intangible assets |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance as at 1 January 2012** | **559,917** | **619,050** | **410,515** | **1,589,482** |
| Additions | 48,212 | - | 108,299 | 156,511 |
| Disposals subsidiary | - | - | (599) | (599) |
| Disposals | (2,149) | - | (90,634) | (92,783) |
| **Balance as at 31 December 2012** | **605,980** | **619,050** | **427,581** | **1,652,611** |
| **Amortisation (including impairment)** | | | | |
| **Balance as at 1 January 2012** | **(103,205)** | **-** | **(188,918)** | **(292,123)** |
| Charge for the period | (33,357) | - | (74,458) | (107,815) |
| Reversal of impairment | 61,716 | - | - | 61,716 |
| Disposals subsidiary | - | - | 225 | 225 |
| Disposals | 2,149 | - | 87,984 | 90,133 |
| **Balance as at 31 December 2012** | **(72,697)** | **-** | **(175,167)** | **(247,864)** |
| **Net book value as at 31 December 2012** | **533,283** | **619,050** | **252,414** | **1,404,747** |

(in thousands of Russian Roubles)

| | SAP R-3 software | System NSI software | Other intangibles | Total intangible assets |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance as at 1 January 2011** | **1,172,956** | **619,050** | **336,224** | **2,128,230** |
| Additions | 123,361 | - | 81,407 | 204,768 |
| Disposals | (736,400) | - | (7,116) | (743,516) |
| **Balance as at 31 December 2011** | **559,917** | **619,050** | **410,515** | **1,589,482** |
| **Amortisation (including impairment)** | | | | |
| **Balance as at 1 January 2011** | **(418,580)** | **-** | **(131,593)** | **(550,173)** |
| Charge for the period | (14,750) | - | (57,325) | (72,075) |
| Disposals | 330,125 | - | - | 330,125 |
| **Balance as at 31 December 2011** | **(103,205)** | **-** | **(188,918)** | **(292,123)** |
| **Net book value as at 31 December 2011** | **456,712** | **619,050** | **221,597** | **1,297,359** |

There were no advances to suppliers of intangible assets as at 31 December 2012 (as at 31 December 2011: RR 41,772 thousand (net of VAT).

## Note 8. Equity accounted investees

Equity accounted investee LLC "OGK-Investproekt" is accounted for using the equity method (see also Note 1). As at 31 December 2012 the cost of the investment amounted RR 1,570,187 thousand (as at 31 December 2011: nil) and included the group's share in LLC "OGK-Investproekt" in amount of RR 521,843 thousand and loan provided to associate in amount of RR 1,048,344 thousand.

The following is summarised financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

| | 31 December 2012 |
|---|---|
| Ownership, % | 49 |
| Total assets | 9,421,054 |
| Total liabilities | 8,337,327 |
| Revenue | 1,910 |
| Profit / (loss) | 383 |
| Group share of net assets | 531,026 |
| Group share of profit | 38 |

## Note 9. Other non-current assets

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Long-term input VAT from advances paid | 1,370,869 | 2,200,226 |
| Prepayments / Deposits for pensions | 833,531 | 263,663 |
| Long-term promissory notes (nominal value of promissory notes is RR 929,526 thousand as at 31 December 2012 and RR 998,642 thousand as at 31 December 2011) | 672,175 | 610,518 |
| Long-term restructured trade and other receivables (net of provision for impairment of trade and other receivables of RR 10,992 thousand as at 31 December 2012 and RR 13,752 thousand as at 31 December 2011, effect of discounting of long-term trade and other receivables of RR 95,993 thousand as at 31 December 2012 and nil as at 31 December 2011) | 369,877 | 19,956 |
| Other | 73,008 | 116,795 |
| **Total** | **3,319,460** | **3,211,158** |

(in thousands of Russian Roubles)

Other non-current assets mainly include an investment in 90,454,910 ordinary shares of OJSC "RusHydro" (available-for-sale investments) with par value of RR 0.001 thousand amounted to RR 66,358 thousand as at 31 December 2012 (as at 31 December 2011: RR 87,280 thousand) (see also Note 14).

### Note 10. Cash and cash equivalents

| | Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| Bank deposits with maturity 3 months or less | RR | 3,531,520 | 20,000 |
| Current bank accounts | RR | 228,742 | 337,816 |
| Other cash equivalents | RR | 82 | 1,300 |
| **Total** | | **3,760,344** | **359,116** |

The Group has current bank accounts in the following banks:

| Cash in bank | Credit rating on 31 December 2012* | 31 December 2012 | Credit rating on 31 December 2011* | 31 December 2011 |
|---|---|---|---|---|
| OJSC "Alfa-bank" | D/Stable | 203,835 | D/Stable | 90,549 |
| OJSC "BANK "ROSSIYA" | E+/Stable | 23,227 | E+/Stable | 148,749 |
| OJSC "Sberbank" | D+/Stable | 1,139 | D+/Stable | 21,074 |
| OJSC "Bank "Petrocommerce" | E+/Negative (multiple) | 457 | - | - |
| OJSC "Gazprombank" | D-/Stable | 82 | E+/Stable | 823 |
| OJSC "Eurofinance Mosnarbank" | E+/Negative (multiple) | 2 | E+/Ratings Under Review | 71,112 |
| CJSC "Mezhdunarodny promyshleny bank" | - | - | - | 4,271 |
| CJSC "VTB 24" | - | - | D-/Negative | 926 |
| OJSC "Transcreditbank" | - | - | D-/Stable | 199 |
| OJSC "Nomos-bank" | - | - | D-/Stable | 70 |
| OJSC "Promsvyazbank" (PSB) | - | - | D/Stable | 41 |
| OJSC "URALSIB" | - | - | D-/Stable | 2 |
| **Total cash in bank** | | **228,742** | | **337,816** |

* The bank financial strength rating / the outlook on all of the bank's ratings, determined by Moody's Investor Service.

Credit quality of bank deposits is presented below:

| Bank deposits with maturity of 3 months or less | Interest rate | Credit rating on 31 December 2012* | 31 December 2012 | Interest rate | Credit rating on 31 December 2011* | 31 December 2011 |
|---|---|---|---|---|---|---|
| OJSC "Alfa-bank" | 8.01%-8.62% | Not-Prime | 2,903,190 | - | - | - |
| OJSC "BANK "ROSSIYA" | 6.50% | Not-Prime | 620,930 | 5.75% | Not-Prime | 12,000 |
| OJSC "Nomos-bank" | 8.20% | Not-Prime | 7,400 | - | - | - |
| OJSC "Sberbank" | - | - | - | 5.84% | Not-Prime | 8,000 |
| **Total bank deposits with maturity of 3 months or less** | | | **3,531,520** | | | **20,000** |

* Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

(in thousands of Russian Roubles)

## Note 11. Trade and other receivables

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade receivables<br>(net of provision for impairment of trade receivables of RR 3,107,812 thousand as at 31 December 2012 and RR 2,603,520 thousand as at 31 December 2011, effect of discounting of long-term trade receivables of RR 74,772 thousand as at 31 December 2012 and nil as at 31 December 2011) | 9,580,025 | 6,578,502 |
| Other receivables<br>(net of provision for impairment of other receivables of RR 1,249,909 thousand as at 31 December 2012 and RR 1,268,972 thousand as at 31 December 2011, effect of discounting of long-term other receivables of RR 21,221 thousand as at 31 December 2012 and nil as at 31 December 2011) | 4,406,114 | 4,297,505 |
| Promissory notes<br>(nominal value of promissory notes is RR 1,577,206 thousand as at 31 December 2012 and RR 1,063,749 thousand as at 31 December 2011) | 1,164,346 | 671,326 |
| Interest receivable | 37,886 | - |
| **Financial assets** | **15,188,371** | **11,547,333** |
| Input VAT | 2,947,745 | 3,895,759 |
| Prepaid other taxes and social funds contribution | 685,535 | 554,208 |
| Advances to suppliers<br>(net of provision for impairment of advances to suppliers of RR 15,043 thousand as at 31 December 2012 and RR 16,637 thousand as at 31 December 2011) | 275,654 | 418,799 |
| **Total** | **19,097,305** | **16,416,099** |
| Less: Long-term input VAT from advances paid | (1,370,869) | (2,200,226) |
| Long-term promissory notes<br>(nominal value of promissory notes is RR 929,526 thousand as at 31 December 2012 and RR 998,642 thousand as at 31 December 2011) | (672,175) | (610,518) |
| Long-term restructured trade and other receivables<br>(net of provision for impairment of trade and other receivables of RR 10,992 thousand as at 31 December 2012 and RR 13,752 thousand as at 31 December 2011, effect of discounting of long-term trade and other receivables of RR 95,993 thousand as at 31 December 2012 and nil as at 31 December 2011) | (369,877) | (19,956) |
| **Total** | **16,684,384** | **13,585,399** |

Other receivables balance includes receivables from LLC EUROFERT TRADING LIMITED in the amount RR 4,235,816 thousand and RR 4,235,816 thousand as at 31 December 2012 and 31 December 2011, respectively, for the Company's treasury shares. The initial repayment date of 26 October 2012 was prolonged till 21 October 2013.

## Note 12. Inventories

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Fuel supplies | 4,381,429 | 3,942,509 |
| Spare parts | 1,360,782 | 1,293,468 |
| Materials and supplies | 847,405 | 846,441 |
| Other inventories | 74,626 | 75,584 |
| **Total** | **6,664,242** | **6,158,002** |

The above inventory balances are recorded net of obsolescence provision of RR 45,734 thousand and RR 53,350 thousand as at 31 December 2012 and 31 December 2011, respectively.

There is no inventory pledged as collateral at 31 December 2012 and at 31 December 2011.

(in thousands of Russian Roubles)

## Note 13. Other current assets

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Short-term deposits | 2,127,380 | - |
| **Total** | **2,127,380** | **-** |

Credit quality of bank deposits is presented below:

| Bank deposits with maturity more than 3 months but within one year | Interest rate | Credit rating on 31 December 2012* | 31 December 2012 | Credit rating on 31 December 2011* | 31 December 2011 |
|---|---|---|---|---|---|
| OJSC "Alfa-bank" | 8.80% | Not-Prime | 2,127,380 | - | - |
| **Total bank deposits with maturity more than 3 months but within one year** | | | **2,127,380** | | **-** |

* Short-term rating of foreign currency deposits, determined by Moody's Investors Service.

## Note 14. Equity

### *Reorganisation*

On 21 June 2011 the General Shareholders Meeting of OJSC "OGK-2" made a decision to merge OJSC "OGK-2" with OJSC "OGK-6". On 1 November 2011 the merger has been completed. In accordance with the merger agreement the share capital of OJSC "OGK-2" was increased by RR 9,645,411 thousand as a result of an additional ordinary shares issue of 26,593,358,578 ordinary shares with nominal value RR 0.3627 each. Thus as at 31 December 2011 the share capital of the Group amounted to RR 21,518,239 thousand.

In June 2012 the General Shareholders Meeting approved a decision to increase the share capital of the Company by public offering of additional shares in total amount of 110,000,000,000 shares with par value of RR 0.3627. The additional share issue was registered in August 2012. The offer price of share was set at RR 0.45 per share. From September to December 2012 the Company received RR 23,000,552 thousand from pre-emptive rights shareholders to purchase 51,112,337,815 shares. The amount of RR 23,000,552 thousand was recognized in the other reserves, as above-mentioned changes were not registered by state authorities as at the reporting date.

| *Share capital* | Number of ordinary shares 31 December 2012 | Number of ordinary shares 31 December 2011 |
|---|---|---|
| Issued shares | 110,440,264,775 | 59,327,926,960 |
| Treasury shares | (2,361,540,300) | (2,360,884,527) |
| Total outstanding shares | 108,078,724,475 | 56,967,042,433 |

All issued ordinary shares are fully paid. Each ordinary share carries one vote.

As at 31 December 2012 the total number of authorised ordinary shares is 169,327,926,960 shares (as at 31 December 2011: 59,328,280,734 shares).

### *Dividends*

The Company's annual statutory accounts form the basis for the annual profit distribution and other appropriations. The specific Russian legislation identifies the basis of distribution as net profit. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these financial statements.

In June 2011 OJSC "OGK-2" and OJSC "OGK-6" declared final dividends for the year ended 31 December 2010 of RR 0.0048759 per share for RR 159,577 thousand and RR 0.00439874 per share for RR 142,022 thousand respectively. These dividends were recognized as liability and deducted from equity at 31 December 2011.

(in thousands of Russian Roubles)

In June 2012 OJSC "OGK-2" declared final dividends for the year ended 31 December 2011 of RR 0.000998761 per share for the total of RR 56,905 thousand. These dividends were recognized as liability and deducted from equity at 31 December 2012.

***Treasury shares***

Shareholders who voted against the merger of OJSC "OGK-2" and OJSC "OGK-6" or did not participate in voting regarding the merger in August 2011 made claims to repurchase their shares. The Group repurchased 2,351,934,227 shares at RR 1.72 per share totalling to RR 4,045,327 thousand in August-September 2011.

During the year LLC "OGK-2 Finance", the Group's subsidiary, purchased on MICEX for further resale 600,000 shares of OJSC "OGK-2" in the total amount of RR 442 thousand (during the year ended 31 December 2011: 980,000 shares in the total amount of RR 874 thousand). LLC "OGK-2 Finance" sold 280,000 shares of OJSC "OGK-2" in the total amount of RR 250 thousand during the year.

During the year the Group also repurchased 335,773 shares of OJSC "OGK-2" in the total amount of RR 426 thousand.

***Fair value revaluation reserve***

The movements in fair value of available-for-sale investments (see also Note 9), which is recognized as part of other comprehensive income are presented below:

| | |
|---|---|
| **As at 31 December 2010** | **(30,071)** |
| Change in fair value of available-for-sale investments for the period | (60,976) |
| **As at 31 December 2011** | **(91,047)** |
| Change in fair value of available-for-sale investments for the period | (20,922) |
| **As at 31 December 2012** | **(111,969)** |

Note 15. Income tax

| ***Income tax charge*** | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| Current income tax charge | (1,224,950) | (1,037,249) |
| Adjustment for prior years | 155,200 | 1,962,441 |
| **Deferred tax expenses** | | |
| Deferred income tax charge | 139,792 | 590,665 |
| Change in tax base of PPE | - | (1,928,070) |
| **Total** | **139,792** | **(1,337,405)** |
| **Total income tax charge** | **(929,958)** | **(412,213)** |

During the year ended 31 December 2012 the Group was subject to a 20% income tax rate on taxable profits (for the year ended 31 December 2011: 20%).

In 2011 the Group recalculated income tax for prior periods (2007-2010) related to the deductibility for tax purposes of certain operating expenses which were previously capitalized in the tax value of property, plant and equipment and accelerated depreciation of property, plant and equipment operated in an aggressive environment.

As a result, income tax overprovided in prior periods, in accordance with the adjusted tax declarations submitted to the tax authorities, amounted to RR 1,962,441 thousand. Also the Group corrected the tax value of property, plant and equipment which resulted in an increase of deferred tax liabilities of the Group in the amount of RR 1,928,070 thousand.

(in thousands of Russian Roubles)

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| **Profit before tax** | **3,953,331** | **422,363** |
| Theoretical tax charge at the statutory tax rate of 20% | (790,666) | (84,473) |
| Overprovided in prior years | 155,200 | 1,962,441 |
| Change in tax base of PPE | - | (1,928,070) |
| Non-deductible expenses: | | |
| Provision for impairment of other receivables | 4,131 | 19,636 |
| Social payments | (64,015) | (109,539) |
| Other | (234,608) | (272,208) |
| **Total income tax charge** | **(929,958)** | **(412,213)** |

**Deferred income tax.** Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and their tax bases. Deferred income tax assets and liabilities are measured at 20%, the rate applicable when the temporary differences will reverse.

***Deferred income tax liabilities***

| | 31 December 2011 | Movement for the period recognized in profit and loss | Movement for the period recognized in other comprehensive income and in equity | 31 December 2012 |
|---|---|---|---|---|
| Property, plant and equipment | (6,589,007) | (196,815) | - | (6,785,822) |
| Provision for impairment of trade receivables | (100,553) | 100,553 | - | - |
| Prepayments / deposits | (52,733) | 9,181 | (123,154) | (166,706) |
| Intangible assets | (14,889) | 994 | - | (13,895) |
| **Total** | **(6,757,182)** | **(86,087)** | **(123,154)** | **(6,966,423)** |

***Deferred income tax assets***

| | 31 December 2011 | Movement for the period recognized in profit and loss | Movement for the period recognized in other comprehensive income and in equity | 31 December 2012 |
|---|---|---|---|---|
| Retirement benefit obligations | 179,947 | 24,477 | - | 204,424 |
| Restoration provision | 114,368 | (3,118) | - | 111,250 |
| Other non-current assets | 78,485 | 23,286 | - | 101,771 |
| Trade and other payables | 69,032 | (1,616) | - | 67,416 |
| Finance lease liabilities | 52,550 | 3,499 | - | 56,049 |
| Inventory | 10,670 | (1,523) | - | 9,147 |
| Unused tax losses | 3,029 | 378 | - | 3,407 |
| Provision for impairment of trade receivables | - | 193,257 | - | 193,257 |
| Other | 14,907 | (12,761) | 4,184 | 6,330 |
| **Total** | **522,988** | **225,879** | **4,184** | **753,051** |

(in thousands of Russian Roubles)

| | 31 December 2011 | Movement for the period recognized in profit and loss | Movement for the period recognized in other comprehensive income and in equity | 31 December 2012 |
|---|---|---|---|---|
| Total deferred income tax liabilities | (6,757,182) | (86,087) | (123,154) | (6,966,423) |
| Total deferred income tax assets | 522,988 | 225,879 | 4,184 | 753,051 |
| **Deferred income tax liabilities, net** | **(6,234,194)** | **139,792** | **(118,970)** | **(6,213,372)** |

*Deferred income tax liabilities*

| | 31 December 2010 | Movement for the period recognized in profit and loss | Movement for the period recognized in other comprehensive income | 31 December 2011 |
|---|---|---|---|---|
| Property, plant and equipment | (5,258,362) | (1,330,645) | - | (6,589,007) |
| Intangible assets | (63,889) | 49,000 | - | (14,889) |
| Provision for impairment of trade receivables | (45,201) | (55,352) | - | (100,553) |
| Prepayments / deposits | (45,168) | (7,565) | - | (52,733) |
| **Total** | **(5,412,620)** | **(1,344,562)** | **-** | **(6,757,182)** |

*Deferred income tax assets*

| | 31 December 2010 | Movement for the period recognized in profit and loss | Movement for the period recognized in other comprehensive income | 31 December 2011 |
|---|---|---|---|---|
| Retirement benefit obligations | 234,733 | (54,786) | - | 179,947 |
| Restoration provision | 113,356 | 1,012 | - | 114,368 |
| Other non-current assets | 103,283 | (24,798) | - | 78,485 |
| Trade and other payables | 29,336 | 39,696 | - | 69,032 |
| Inventory | 10,400 | 270 | - | 10,670 |
| Unused tax losses | 1,391 | 1,638 | - | 3,029 |
| Finance lease liabilities | - | 52,550 | - | 52,550 |
| Other | 11,137 | (8,425) | 12,195 | 14,907 |
| **Total** | **503,636** | **7,157** | **12,195** | **522,988** |

| | 31 December 2010 | Movement for the period recognized in profit and loss | Movement for the period recognized in other comprehensive income | 31 December 2011 |
|---|---|---|---|---|
| Total deferred income tax liabilities | (5,412,620) | (1,344,562) | - | (6,757,182) |
| Total deferred income tax assets | 503,636 | 7,157 | 12,195 | 522,988 |
| **Deferred income tax liabilities, net** | **(4,908,984)** | **(1,337,405)** | **12,195** | **(6,234,194)** |

(in thousands of Russian Roubles)

## Note 16. Non-current debt

| | Currency | Effective interest rate | Due | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|---|
| Loans | RR | 8.00%-8.40% | 2015-2016 | 20,100,000 | 27,001,877 |
| Finance lease liability | RR | 19.62%-34.73% | 2014-2016 | 150,627 | 166,363 |
| **Total** | | | | **20,250,627** | **27,168,240** |

All of the above bank debt is obtained at fixed interest rates.

**Maturity table**

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Due for repayment** | | |
| Between one and two years | 78,546 | 56,826 |
| Between two and three years | 13,652,263 | 42,357 |
| Between three and four years | 6,519,818 | 13,647,363 |
| Between four and five years | - | 6,519,817 |
| More than five years | - | 6,901,877 |
| **Total** | **20,250,627** | **27,168,240** |

The lease liabilities are effectively secured as the rights for the leased asset revert to the lessor in the event of default.

| **Finance lease liabilities – minimum lease payments** | 31 December 2012 | 31 December 2011 |
|---|---|---|
| **Due for repayment** | | |
| Less than one year | 163,607 | 111,088 |
| Between one year and five years | 181,963 | 219,883 |
| Future finance charges on finance lease | (80,931) | (95,450) |
| **Present value of lease liabilities** | **264,639** | **235,521** |

Management believes that the total current value of non-current debt approximates its fair value since actual interest rates approximate current market interest rates available to the Group for similar financial instruments.

## Note 17. Other long-term liabilities

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade payables | 704,615 | 230,885 |
| Accrued liabilities and other payables | 9,538 | 10,376 |
| **Total finance liabilities** | **714,153** | **241,261** |

## Note 18. Current debt and current portion of non-current debt

| | Currency | Effective interest rate | 31 December 2012 | 31 December 2011 |
|---|---|---|---|---|
| OJSC "BANK"ROSSIYA" | RR | 5.80-8.25% | 3,200,360 | 4,000,000 |
| Current portion of finance lease liability | RR | 19.62%-34.73% | 114,012 | 69,158 |
| Bonds | RR | 7.25% | - | 1,532,550 |
| **Total** | | | **3,314,372** | **5,601,708** |

All of the above bank debt is obtained at fixed interest rates.

The effective interest rate is the market interest rate applicable to the loan at the date of origination for fixed rate loans.

(in thousands of Russian Roubles)

## Note 19. Trade and other payables

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Trade payables | 5,838,407 | 5,972,946 |
| Accrued liabilities and other payables | 411,323 | 728,692 |
| Dividends payable | 3,797 | 3,726 |
| Interest payable | - | 21,917 |
| **Financial liabilities** | **6,253,527** | **6,727,281** |
| Salaries and wages payable | 576,450 | 671,985 |
| Advances from customers | 5,472 | 32,244 |
| **Total** | **6,835,449** | **7,431,510** |

Trade payables, accrued liabilities and other payables are classified as financial liabilities. The Group's management believes that the majority of suppliers, whose balances are included in trade and other payables balance, relate to the same class of reliable suppliers with similar characteristics.

## Note 20. Other taxes payable

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Property tax | 246,180 | 97,475 |
| Social tax | 180,743 | 252,625 |
| Water usage tax | 98,674 | 129,108 |
| Personal income tax | 57,084 | 54,991 |
| Value added tax | 3,552 | - |
| Environment pollution payment | - | 46,215 |
| Other taxes | 8,712 | 17,064 |
| **Total** | **594,945** | **597,478** |

## Note 21. Retirement benefit obligations

The post employment and post retirement program of the Company consists of the occupational pension plan and various post employment, long-term and jubilee benefits. This is a defined benefit plan, under which the participants accrue pension entitlements on the basis of a formula or defined rule. The occupational pension program comprises the main part of the program. According to the pension formula, the pension benefit is dependent on the past service of participants and their final salary. Employees older than 25 are entitled to the occupational pension benefits.

The defined benefit pension plan provides old age retirement pension and disability pension. The plan's old age retirement pension is conditional on the member qualifying for the State old age pension.

The company also provides various long-term and post employment benefits including death in service and death in occupational pension benefit, lump sum payments upon retirement and jubilee benefits to active employees.

Additionally the Company provides financial support payments of a defined benefit nature to its former employees, who have reached the retirement age. Such benefits are paid either to those who qualify for the occupational pension plan and those who do not.

As at 31 December 2012, there were 10,034 active employees eligible to participate in the post retirement defined benefit program of the Company and 6,826 recipients of the financial support benefits (as at 31 December 2011: 10,146 and 6,762 respectively).

The last independent actuarial valuation of pension and other post employment and long-term benefits in accordance with the provisions of IAS 19 was performed as at 31 December 2012 using individual members' census data as at the valuation date.

(in thousands of Russian Roubles)

Amounts recognised in the consolidated statement of financial position are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Present value of defined benefit obligations (DBO) | 2,635,067 | 2,354,037 |
| Present value of unfunded obligations | 2,635,067 | 2,354,037 |
| Unrecognised actuarial loss | (790,769) | (686,553) |
| Unrecognised past service cost | 38,528 | 14,738 |
| **Net liability at the end of year** | **1,882,826** | **1,682,222** |
| Employees' average remaining working life (years) | 11 | 10 |

Amounts recognised in the consolidated income statement are as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Current service cost | 121,745 | 101,576 |
| Interest cost | 197,510 | 156,821 |
| Net actuarial losses recognised during the year | 213,064 | 124,210 |
| Amortisation of past service cost | (1,474) | 22,655 |
| Immediate recognition of vested past service cost | (139,296) | (102,995) |
| Curtailment | (39,616) | - |
| **Net expense recognised in the consolidated income statement** | **351,933** | **302,267** |

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

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Net liability at the beginning of the year | 1,682,222 | 1,530,399 |
| Net expense recognised in the consolidated income statement | 351,933 | 302,267 |
| Benefits paid | (151,329) | (150,444) |
| **Net liability at the end of year** | **1,882,826** | **1,682,222** |

The key actuarial assumptions used were as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Discount rate | 7.20% | 8.50% |
| Future salary increases | 9.30% | 9.72% |
| Future pension increases | n/a | n/a |
| Future financial support benefits increases | 4.90% | 5.50% |
| Staff turnover | 4.00% | 4.00% |
| Mortality | Russia 1998 | Russia 1998 |

Reconciliation of opening and closing balances of the present value of the defined benefit obligation (DBO):

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Present value of DBO at the beginning of year | 2,354,037 | 1,933,907 |
| Current service cost | 121,745 | 101,576 |
| Interest cost | 197,510 | 156,821 |
| Actuarial loss | 317,280 | 489,979 |
| Past service cost | (164,560) | (177,802) |
| Benefits paid | (151,329) | (150,444) |
| Curtailment | (39,616) | - |
| **Present value of defined benefit obligations (DBO) at the end of year** | **2,635,067** | **2,354,037** |

(in thousands of Russian Roubles)

Funded status of the pension and other post employment and long-term obligations as well as gains / losses arising for experience adjustments is as follows:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of DBO | 2,635,067 | 2,354,037 | 1,933,907 | 1,630,142 | 1,569,536 |
| (Losses) / gains arising from experience adjustments on plan liabilities | (233,157) | (403,680) | (86,795) | (8,365) | 5,635 |

During the year the Company made an adjustment for pension prepayments in the amount of RR 492,616 thousand due to unification of the accounting policies of OJSC "OGK-6" and OJSC "OGK-2". Management did not revise the comparative information for the year ended 31 December 2011 in the retained earnings, considering it to be immaterial for revision.

## Note 22. Restoration provision

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and an obligation to restore the surface of this ash dump when it is full. The main assumptions used in the calculation of the provision are as following:

- Average inflation per annum – 4.5% (2011: 4.5%);
- Pre-tax discount rate – 13.88% (2011: 13.88%);
- Projected restoration period – 11 years (2011: 12 years).

| | Notes | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Total carrying amount at the beginning of year** | | **571,838** | **566,778** |
| Less current portion | | 50,168 | 48,740 |
| **Non-current portion at the beginning of year** | | **521,670** | **518,038** |
| Unwinding of the present value discount | 26 | 52,269 | 65,240 |
| Changes in estimates adjusted against property, plant and equipment | | - | (16,841) |
| Utilisation | | (67,855) | (43,339) |
| **Total carrying amount at the end of year** | | **556,252** | **571,838** |
| Less current portion | | 45,119 | 50,168 |
| **Non-current portion at the end of year** | | **511,133** | **521,670** |

## Note 23. Revenues

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Electricity and capacity | 99,550,361 | 100,721,505 |
| Heating | 3,458,361 | 3,221,972 |
| Other | 1,204,665 | 952,162 |
| **Total** | **104,213,387** | **104,895,639** |

(in thousands of Russian Roubles)

## Note 24. Operating expenses

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|---|
| Fuel | | 62,107,630 | 63,398,434 |
| Purchased electricity, capacity and heat | | 8,778,396 | 8,751,713 |
| Employee benefits | | 7,069,831 | 7,748,374 |
| Depreciation and amortisation of property, plant, equipment and intangible assets | | 4,113,637 | 3,682,538 |
| Repairs and maintenance | | 3,058,327 | 4,219,791 |
| Raw materials and supplies | | 2,532,609 | 3,094,075 |
| Taxes other than income tax | | 2,241,626 | 2,261,570 |
| Dispatcher's fees | | 1,723,988 | 1,618,527 |
| Transport | | 678,297 | 906,744 |
| Rent | | 578,642 | 496,303 |
| Provision for impairment of trade and other receivables | | 549,666 | 1,206,926 |
| Ecological payments | | 419,593 | 389,910 |
| Consulting, legal and audit services | | 292,470 | 362,994 |
| Insurance | | 204,328 | 194,800 |
| Loss on disposal of property, plant, equipment | | 118,310 | 113,750 |
| (Reversal) / charge of property, plant and equipment and intangible assets impairment | 6,7 | (61,720) | 7,208 |
| (Gain) / loss on disposal of other assets | | (12,915) | 402,770 |
| Reversal of provision for inventory obsolescence | 12 | (7,616) | (4,144) |
| Other expenses | | 3,429,858 | 3,514,100 |
| **Total operating expenses** | | **97,814,957** | **102,366,383** |

*Employee benefits expenses* comprise the following:

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Salaries and wages | 5,225,209 | 5,616,577 |
| Social funds contribution | 1,319,411 | 1,406,730 |
| Financial aid to employees and pensioners | 370,788 | 579,621 |
| Non-state pensions and other long-term benefits | 154,423 | 145,446 |
| **Employee benefits** | **7,069,831** | **7,748,374** |
| Number of personnel at the end of the period | 10,091 | 10,093 |

Included in social funds contribution are statutory pension contributions of RR 1,067,813 thousand (for the year ended 31 December 2011: RR 1,085,794 thousand).

## Note 25. Finance income

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Interest income on bank deposits and current bank account balances | 79,453 | 45,941 |
| Release of discounting effect of long-term promissory notes received | 68,650 | 92,228 |
| Foreign exchange differences | 31,574 | - |
| Effect of discounting of long-term restructured trade receivables | 14,400 | - |
| Interest income on loans | 10,798 | 127 |
| Other finance income | 78 | 553 |
| **Total finance income** | **204,953** | **138,849** |

(in thousands of Russian Roubles)

## Note 26. Finance costs

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Interest expense on debt | (2,179,078) | (1,649,323) |
| Interest on employee benefit obligations (Note 21) | (197,510) | (156,821) |
| Effect of discounting of long-term restructured trade receivables | (110,393) | - |
| Effect of discounting of long-term promissory notes received | (89,087) | (13,873) |
| Interest expense under finance lease agreements | (72,234) | (33,618) |
| Unwinding of the present value discount - provision for ash dump (Note 22) | (52,269) | (65,240) |
| Foreign exchange differences | - | (15,523) |
| **Total finance costs** | **(2,700,571)** | **(1,934,398)** |

## Note 27. Earnings per share

| | Year ended 31 December 2012 | Year ended 31 December 2011 |
|---|---|---|
| Weighted average number of ordinary shares issued | 65,829,606,615 | 58,253,818,751 |
| Profit attributable to the shareholders of OJSC "OGK-2" (thousand of RR) | 3,023,373 | 10,150 |
| **Earning per ordinary share attributable to the shareholders of OJSC "OGK-2" – basic and diluted (in RR)** | **0.0459** | **0.0002** |

## Note 28. Capital commitments

In November 2010 the Company had signed an agency agreements with OJSC "CFS" (CJSC "CFS" has been subsequently reorganized into OJSC "CFS" in 2012), OJSC "ATS", NP Council Market and SO UPS, under which OJSC "CFS" was to sign on behalf of OJSC "OGK-2" contracts on capacity provision. In December 2010 OJSC "CFS" on behalf of the OJSC "OGK-2" signed the contracts on provision of capacity from estimated generating units with total capacity of 3 680 MWth. In accordance with agency agreements conditions in case of non-compliance with deadlines of putting into operation of generating units, or in case of incomplete delivery, the Company pays the forfeit. Amount of forfeit depends on terms of expiration of generating unit entry date, volume of incomplete delivered capacity and price for this capacity according to long-term capacity supply contract. Management of the Company does not expect non-fulfillment or partial fulfillment of obligations under long-term capacity supply contract, that can result in significant forfeits.

As at 31 December 2012 in the framework of the investment program implementation the Group has capital commitments (including VAT) of RR 42,137,165 thousand (as at 31 December 2011: RR 66,616,100 thousand).

As at 31 December 2012 the Group has commitments of RR 195,393 thousand in respect of software implementation costs (as at 31 December 2011 - RR 76,685 thousand).

## Note 29. Guarantees

The Group's guarantee to OJSC "Bank of Moscow" for OJSC "E4 Group" fulfilling its obligations under the letter of credit agreement between the bank and OJSC "E4 Group" in the framework of the general construction contract with the Group expired and was equal to zero as at 31 December 2012 (as at 31 December 2011: EURO 35,942 thousand or RR 1,497,745 thousand) (for the rest of the guarantees see Note 6).

## Note 30. Contingencies

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

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

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

***Tax contingency.*** Russian tax and currency legislation is subject to varying interpretations, 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 way of accounting of water tax, deductibility of certain expenses.

As at 31 December 2012 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and currency 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.

***Environmental matters***. The Group and its predecessor entities have operated in the electric power industry in the Russian Federation for many years. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement position of government authorities is continually being reconsidered. The Group periodically evaluates their obligations under environmental regulations.

The Group owns an ash dump on the territory of the Republic of Kazakhstan, and is subject to the environmental regulations in this country in respect of the usage of the ash dump. As such, the Group periodically evaluates its obligations under Kazakhstan environmental regulations and accrues the respective provision.

Potential liabilities might arise as a result of changes in legislation and regulation or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental remediation in excess of those amounts for which the provision has been recognised by the Group in these consolidated financial statements.

## Note 31. Financial instruments and financial risks factors

***Financial risk factors.*** The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates, changes in interest rates, and the collectability of receivables. The Group does not have a risk policy to hedge its financial exposures.

***Bank covenants.*** In 2012, under the agreement's terms with the OJSC "BANK "ROSSIYA" (the Lender) (see Note 18) the Group credit facilities were restricted by covenants (transfer of revenue proceeds to current account). In case of breach of covenants OJSC "BANK" ROSSIYA" has the right to increase the credit rate to 1%, as well as to demand an early repayment. In respect of this loans the Group has complied with covenants.

In 2011, under the agreement's terms with OJSC "Sberbank", OJSC "Evrofinance Mosnarbank", OJSC "BANK "ROSSIYA" (the Lender) the Group credit facilities were restricted by covenants (transfer of revenue proceeds to current account). In case of breach of covenants the Lender had the option to call these loans earlier. In respect of these loans the Group has complied with all covenants.

(in thousands of Russian Roubles)

***Credit risk.*** The Group's financial assets, which are exposed to credit risk, are as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Long-term trade receivables (Note 11) | 300,746 | 12,189 |
| Short-term trade receivables (Note 11) | 9,279,279 | 6,566,313 |
| Long-term other receivables (Note 11) | 69,131 | 7,767 |
| Short-term other receivables (Note 11) | 4,336,983 | 4,289,738 |
| Cash and cash equivalents (Note 10) | 3,760,344 | 359,116 |
| Short-term bank deposits (Note 13) | 2,127,380 | - |
| Long-term promissory notes (Note 11) | 672,175 | 610,518 |
| Short-term promissory notes (Note 11) | 492,171 | 60,808 |
| Available-for-sale investments (Note 9) | 66,358 | 87,280 |
| Interest receivable (Note 11) | 37,886 | - |
| **Total financial assets** | **21,142,453** | **11,993,729** |

Guarantees are disclosed in Note 6.

The Group's exposure to credit risk mainly depends on each particular counterparty characteristics. Due to absence of independent credit ratings for wholesale electricity market and other buyers, the Group assesses their solvency based on financial condition, reputation, past experience and existence of past due. The existing receivables are monitored and collection measures are taken regularly. Management believes that the majority of customers whose balances are included in trade receivables comprise a single class, as they bear the same characteristics. Those customers belong to the same wholesale electric power market (NOREM), which is regulated by OJSC "Administrator of Trade System" (OJSC "ATS").

Management does not believe that the Group is dependent on any particular customer.

As at 31 December 2012 and 31 December 2011 no trade or other receivables were secured by guarantees. Credit risks related to trade and other receivables are systematically reviewed for necessity of creation of impairment provision against trade and other receivables. Trade and other receivables balance netted with trade and other receivables impairment provision represents maximum exposure to credit risks, relating to receivables. Despite the fact that cash collection is subject to influence of different economic factors, management of the Group believes that there is no significant risk of losses exceeding recognized trade and other receivables impairment provision.

The amount of trade and other receivables impairment provision is assessed by management based on the analysis of particular counterparty's solvency, credit history and cash collection, and analysis of future cash flows. As at 31 December 2012 identification of present value of future cash flows was done utilizing discount rates of 13.27% p.a. – 15.52% p.a. (as at 31 December 2011: 13.27% p.a. – 15.23% p.a), calculated based on the original effective interest rate. Discounting effect is recognized as part of finance expenses (finance income). The Group estimates that discounted amount of trade and other receivables less recognized impairment provision can be collected in cash or settled against trade and other payables.

As at 31 December 2012 the main part of the provision for impairment related to the receivable from CJSC "Mezhdunarodny promyshleny bank" in the amount of RR 1,178,387 thousand (as at 31 December 2011: RR 1,192,425 thousand) and receivable from customers in North Caucasus region of Russia in the amount of RR 1,907,549 thousand (as at 31 December 2011: RR 1,328,536 thousand).

Movements in trade and other receivables impairment provision during 2012 were as follows:

| | |
|---|---|
| **Impairment provision as at 31 December 2011** | **3,872,492** |
| Accrual of impairment provision | 1,098,176 |
| Write-off of doubtful trade and other receivables | (64,023) |
| Reversal of impairment provision | (548,924) |
| **Impairment provision as at 31 December 2012** | **4,357,721** |

(in thousands of Russian Roubles)

Movements in trade and other receivables impairment provision during 2011 were as follows:

| | |
|---|---|
| **Impairment provision as at 31 December 2010** | **2,595,081** |
| Accrual of impairment provision | 1,568,629 |
| Write-off of doubtful trade and other receivables | (5,947) |
| Reversal of impairment provision | (285,271) |
| **Impairment provision as at 31 December 2011** | **3,872,492** |

As at 31 December 2012 total amount of overdue trade and other receivables which were not provided for impairment was RR 6,392,326 thousand (as at 31 December 2011: RR 1,049,178 thousand). The reason impairment provision was not created is the absence of non-payment of respective counterparties in the past. Further, these amounts were collectively assessed for impairment within groups of financial assets with similar credit risk. Collective assessment did not change individual assessment.

The analysis of trade and other receivables by accrual periods is presented below:

| | 31 December 2012 | | | 31 December 2011 | |
|---|---|---|---|---|---|
| | **Nominal value** | **Impairment** | **Effect of discounting** | **Nominal value** | **Impairment** |
| Not overdue | 7,837,080 | (147,274) | (95,993) | 9,859,515 | (32,686) |
| Overdue less than 1 month | 72,741 | (562) | - | 77,477 | (15,003) |
| Overdue from 1 to 3 months | 5,761,479 | (69,859) | - | 716,082 | (17,421) |
| Overdue from 3 months to 1 year | 1,353,872 | (760,478) | - | 2,503,925 | (2,246,149) |
| Overdue from 1 year to 3 years | 2,888,402 | (2,853,385) | - | 1,171,757 | (1,142,610) |
| Overdue more than 3 years | 526,279 | (526,163) | - | 419,743 | (418,623) |
| **Total** | **18,439,853** | **(4,357,721)** | **(95,993)** | **14,748,499** | **(3,872,492)** |

Cash is placed in Russian financial institutions which are considered at the time of deposit to have minimal or low risk of default. The Board of Directors of the Company has approved a list of the banks, at which deposits could be placed and rules for such placements. Also the Group continuously considers financial condition, independent agencies ratings, past experience and other factors. The list of the banks with balances and ratings, at which the Group has open current bank accounts and deposits at the reporting date, is presented in Notes 10 and 13.

As at the reporting date maximum Group's exposure to credit risk equals to carrying amount of each class of financial assets. The Group does not hold any collateral.

***Liquidity risk.*** Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. To manage the liquidity risk the Group applies a policy of holding financial assets for which there is a liquid market and that are readily convertible to meet liquidity needs. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

| **31 December 2012** | **0-6 months** | **6-12 months** | **1-2 years** | **2-3 years** | **3-4 years** | **4-5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Loans including future principal and interest payments | 4,093,040 | 831,200 | 1,662,400 | 15,090,580 | 6,835,978 | - | - | 28,513,198 |
| Finance lease liability | 85,791 | 77,816 | 100,462 | 60,797 | 20,704 | - | - | 345,570 |
| Trade payables | 5,789,853 | 48,554 | 613,917 | 48,542 | 41,980 | 132 | 44 | 6,543,022 |
| Other payables (except for advances received and liabilities for employee compensations) | 414,777 | 343 | 671 | 671 | 671 | 671 | 6,854 | 424,658 |
| **Total future payments** | **10,383,461** | **957,913** | **2,377,450** | **15,200,590** | **6,899,333** | **803** | **6,898** | **35,826,448** |

(in thousands of Russian Roubles)

| 31 December 2011 | 0-6 months | 6-12 months | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|---|
| Bonds including future principal and interest payments | 1,587,953 | - | - | - | - | - | - | 1,587,953 |
| Loans including future principal and interest payments | 5,136,374 | 1,081,393 | 2,162,786 | 2,162,786 | 15,594,096 | 7,337,789 | 9,268,113 | 42 743,337 |
| Finance lease liability | 57,257 | 53,831 | 84,241 | 59,157 | 55,781 | 20,704 | - | 330,971 |
| Trade payables | 5,969,536 | 3,410 | 65,087 | 135,759 | 29,668 | 195 | 176 | 6,203,831 |
| Other payables (except for advances received and liabilities for employee compensations) | 559,922 | 172,496 | 13 | - | - | - | 10,363 | 742,794 |
| **Total future payments** | **13,311,042** | **1,311,130** | **2,312,127** | **2,357,702** | **15,679,545** | **7,358,688** | **9,278,652** | **51,608,886** |

Guarantees are disclosed in Note 29.

The Group has the following unutilized bank credit lines:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Fixed interest rate facility: | | |
| - expiring within 1 year from the reporting date* | 2,800,000 | 7,744,192 |
| **Total** | **2,800,000** | **7,744,192** |

*fixed rate is agreed for every tranche withdrawal.

***Interest rate risk.*** Profit and cash flows from operating activities of the Group are mainly independent from changes in market interest rates. The Group is exposed to changes in interest rates risk only in respect of changes in market value of interest bearing loans and borrowings and interest bearing deposits. Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. Significant interest bearing assets of the Group are disclosed in Notes 10 and 13. These assets have fixed interest rate and therefore are not exposed to risk of difference between fixed interest rate and market interest rate.

***Currency risk.*** The electricity and heat produced by the Group are sold domestically at prices denominated in Russian Roubles, currency of Russian Federation. Due to that fact, the Group has low foreign currency exchange risk exposure. The Group's financial position, liquidity, its sources of financing, financial performance are largely independent of changes in foreign exchange rate because the Group's activity is planned in the way that all its assets and liabilities should be denominated in domestic currency. Due to these facts potential effect of changes in exchange rate of national currency to other currencies is estimated by the Group as insignificant.

***Capital risk management.*** The following capital requirements have been established for joint stock companies by the legislation of Russian Federation:

- Share capital cannot be lower than 1,000 minimum salaries on the date of company registration;
- If the share capital of the entity is greater than statutory net assets of the entity, such entity must make a decision on the decrease of its share capital to the value not exceeding its net assets or liquidation value;
- If the minimum allowed share capital is greater than statutory net assets of the entity, such entity is subject to liquidation.

As at 31 December 2012, the Group has been in compliance with the above share capital requirements.

The Group's objectives when managing capital are to safeguard the Group's ability as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the statutory financial statements as total liabilities divided by total equity.

(in thousands of Russian Roubles)

According to the Company's internal regulation the Company's total liabilities/equity ratio should not exceed 1. The Company satisfied this ratio.

The gearing ratios, calculated on the basis of statutory financial statements, prepared in accordance with Russian accounting standards at 31 December 2012 and 31 December 2011 were as follows:

| | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Total liabilities | 54,733,716 | 39,926,260 |
| Equity | 79,651,125 | 75,701,776 |
| **Gearing ratio, %** | **0.69** | **0.53** |

***Fair values.*** Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts, and determines the appropriate level of the financial assets and liabilities using a three – level hierarchy on the basis of the lowest level input that is significant to the fair value measurements. The available for sale investments (see Note 9) are classified as Level 1.

### Note 32. Segment information

The Management Board of the Company controls and allocates economic resources of the Group between segments and evaluates segments' operating efficiency. Primary activity of the Group is production of electric and heat power and capacity which covers 98.8% of the Group revenue. The technology of electricity and heat production does not allow segregation of electricity and heat segments. Due to significant decentralization and distances between Company branches, the Group discloses seven reporting segments: Surgutskaya GRES-1, Troitskaya GRES, Stavropolskaya GRES, Serovskaya GRES, Kirishskaya GRES, Novocherkasskaya GRES, Ryazanskaya GRES. All reporting segments are located on the territory of Russian Federation. In the process of evaluation of segments, results and allocation of economic resources of the Group the Management Board uses financial information provided below prepared in accordance with RAR. The differences between the above-mentioned financial indicators analyzed by the Management Board and IFRS financial information are caused by different approaches applied in IFRS and RAR. The main difference is the estimation of the value of property, plant and equipment. The Group does not have inter-segment revenue.

| **Year ended 31 December 2012** | Surgutskaya GRES-1 | Stavropolskaya GRES | Troitskaya GRES | Serovskaya GRES | Kirishskaya GRES |
|---|---|---|---|---|---|
| **Revenue** | 23,718,914 | 15,027,373 | 6,510,542 | 3,262,520 | 15,550,495 |
| **Depreciation of property, plant, equipment** | (205,470) | (94,176) | (507,795) | (74,777) | (1,027,052) |
| **Segment operating profit / (loss)** | 5,409,057 | 870,988 | (921,546) | (192,697) | 2,537,340 |
| **Capital expenditure*** | 266,310 | 207,294 | 4,819,631 | 11,387,873 | 1,640,823 |

| **Year ended 31 December 2012** | Novocherkasskaya GRES | Ryazanskaya GRES | Other operating segments | **Total operating segments** |
|---|---|---|---|---|
| **Revenue** | 12,606,325 | 14,107,030 | 13,430,188 | **104,213,387** |
| **Depreciation of property, plant, equipment** | (234,514) | (503,261) | (420,762) | **(3,067,807)** |
| **Segment operating profit / (loss)** | 815,614 | 571,972 | 573,734 | **9,664,462** |
| **Capital expenditure*** | 8,534,004 | 2,370,536 | 547,574 | **29,774,045** |

(in thousands of Russian Roubles)

| Year ended 31 December 2011 | Surgutskaya GRES-1 | Stavropolskaya GRES | Troitskaya GRES | Serovskaya GRES | Kirishskaya GRES |
|---|---|---|---|---|---|
| **Revenue** | 23,906,118 | 15,806,422 | 5,987,749 | 4,356,385 | 13,060,036 |
| **Depreciation of property, plant, equipment** | (187,932) | (91,030) | (315,353) | (86,917) | (504,043) |
| **Segment operating profit / (loss) before income tax** | 6,113,421 | 1,388,644 | (1,759,280) | (80,999) | 1,263,032 |
| **Capital expenditure*** | 275,946 | 478,338 | 8,595,679 | 241,446 | 5,609,167 |

| Year ended 31 December 2011 | Novocherkasskaya GRES | Ryazanskaya GRES | Other operating segments | Total operating segments |
|---|---|---|---|---|
| **Revenue** | 14,208,587 | 15,020,927 | 12,549,415 | **104,895,639** |
| **Depreciation of property, plant, equipment** | (320,203) | (747,362) | (605,030) | **(2,857,870)** |
| **Segment operating profit / (loss) before income tax** | 311,112 | 715,684 | (621,632) | **7,329,982** |
| **Capital expenditure*** | 3,108,638 | 872,018 | 597,720 | **19,778,952** |

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

A reconciliation of management financial information prepared in accordance with RAR to IFRS financial information is provided below:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| Segment operating profit | 9,664,462 | 7,329,982 |
| Adjustments, arised from different accounting policy: | | |
| Provision for impairment of trade and other receivables | 2,975 | 81,047 |
| Depreciation adjustment | (917,501) | (761,268) |
| Gain on disposal of assets | (13,206) | (103,912) |
| Other adjustments | 372,146 | 233,197 |
| Unallocated (expenses) / income: | (2,659,927) | (4,561,134) |
| Provision for impairment of trade and other receivables | (681,237) | (1,055,035) |
| Employee benefit | (611,604) | (965,734) |
| Rent | (280,449) | (326,205) |
| Consulting, legal and audit services | (206,608) | (299,106) |
| Share of net income of equity accounted investees | 38 | - |
| Other corporate expenses | (880,067) | (1,915,054) |
| **Operating profit (IFRS)** | **6,448,949** | **2,217,912** |

Segment's assets are disclosed below:

| | Surgutskaya GRES-1 | Stavropolskaya GRES | Troitskaya GRES | Serovskaya GRES | Kirishskaya GRES |
|---|---|---|---|---|---|
| **31 December 2012** | 4,159,131 | 3,021,520 | 29,612,156 | 11,844,433 | 22,093,417 |
| **31 December 2011** | 4,136,252 | 2,887,087 | 25,899,355 | 9,996,699 | 21,545,458 |

| | Novocherkasskaya GRES | Ryazanskaya GRES | Other operating segments | **Total assets** |
|---|---|---|---|---|
| **31 December 2012** | 18,923,033 | 12,694,606 | 9,481,565 | **111,829,861** |
| **31 December 2011** | 16,107,227 | 12,554,617 | 9,032,526 | **102,159,221** |

(in thousands of Russian Roubles)

A reconciliation of management financial information to IFRS financial information is provided below:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011** |
|---|---|---|
| Total assets for reportable segment | 111,829,861 | 102,159,221 |
| Adjustments, arised from different accounting policy: | | |
| Property, plant and equipment adjustment | 13,552,006 | 14,578,216 |
| Prepayments / deposits for pensions (Note 9) | 833,531 | 263,663 |
| Discounting of promissory notes | (412,860) | (392,423) |
| Discounting of long-term trade and other receivables | (95,993) | - |
| Impairment of trade and other receivables | (11,624) | (14,599) |
| Provision for inventory obsolescence (Note 12) | (45,734) | (53,350) |
| Other adjustments | (808,218) | (154,857) |
| Unallocated assets: | | |
| Equity accounted investees | 1,570,187 | - |
| Other | 23,220,914 | 15,616,903 |
| **Total assets (IFRS)** | **149,632,070** | **132,002,774** |

The unallocated assets are the assets which cannot be directly related to the certain operating segment and are also out of the operating segment control for decision making purposes. These assets include intangible assets, short – term and long - term trade receivables, cash in bank, deposits, inventories and items of property, plant and equipment which are subject to the headquarters control.

Management of the Group does not review the information in respect of operating segment's liabilities in order to make a decision about allocation of resources, because of centralisation of significant part of payment transactions.