WGC-3 Group

Consolidated financial statements

for the year ended 31 December 2011

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For the year ended 31 December 2011

Contents

Ernst & Young

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the shareholders and to the Board of Directors of Open Joint Stock Company Third Generation Company of the Wholesale Electricity Market (OJSC WGC-3)

We have audited the accompanying consolidated financial statements of OJSC WGC-3 and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLC

16 March 2012

WGC-3 Group

Consolidated statement of financial position

as at 31 December 2011

(in thousands of Russian Roubles)

	Notes	31 December 2011	31 December 2010 (Restated[1])	1 January 2010 (Restated[2])
Assets				
Non-current assets				
Property, plant and equipment	5	57,623,174	45,954,330	36,291,796
Intangible assets	6	59,834	78,455	61,908
Other non-current assets	8	1,256,787	2,351,150	16,174,896
Total non-current assets		**58,939,795**	**48,383,935**	**52,528,600**
Current assets				
Inventories	9	2,738,182	2,179,133	1,899,864
Accounts receivable and prepayments	10	6,630,420	4,918,339	4,188,359
Bank deposits	11	27,791,621	39,617,928	8,893
Current income tax prepayments		116,880	308,497	471,730
Cash and cash equivalents	12	4,641,846	3,263,202	51,154,043
Assets held for sale	8	–	504,594	958,291
Total current assets		**41,918,949**	**50,791,693**	**58,681,180**
Total assets		**100,858,744**	**99,175,628**	**111,209,780**
Equity and liabilities				
Equity				
Share capital	13	47,487,999	47,487,999	47,487,999
Share premium		63,136,744	63,136,744	63,136,744
Treasury shares	13	(7,947,303)	(7,947,303)	(7,947,303)
Other reserves		(8,315,428)	(8,279,378)	(8,316,871)
Retained earnings		(3,708,076)	(4,172,731)	10,485,159
Total equity		**90,653,936**	**90,225,331**	**104,845,728**
Non-current liabilities				
Deferred tax liabilities	14	2,062,057	2,483,832	2,306,969
Post employment benefits	15	366,758	300,828	272,615
Other non-current liabilities	16	379,982	341	83
Total non-current liabilities		**2,808,797**	**2,785,001**	**2,579,667**
Current liabilities				
Accounts payable and accruals	17	5,399,032	3,256,110	2,046,140
Provisions	18	9,160	793,770	114,095
Taxes payable	19	1,987,819	2,115,416	1,624,150
Total current liabilities		**7,396,011**	**6,165,296**	**3,784,385**
Total liabilities		**10,204,808**	**8,950,297**	**6,364,052**
Total equity and liabilities		**100,858,744**	**99,175,628**	**111,209,780**

Chief Executive Officer of LLC INTER RAO – Electricity Generation Management - the management company for JSC WGC-3 — G.F. Binko

Chief Accountant — M.V. Antipov

16 March 2012

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «Третья генерирующая компания оптового рынка электроэнергии» ОГРН 1040302983093 * Республика Бурятия * ОГК III

[1] Certain amounts do not correspond to the 2010 financial statements and reflect adjustments made as detailed in Note 2
[2] Certain amounts do not correspond to the 2009 financial statements and reflect adjustments made as detailed in Note 2

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 in Notes 1-28

WGC-3 Group

Consolidated statement of comprehensive income

for the year ended 31 December 2011

(in thousands of Russian Roubles)

	Notes	2011	2010 (Restated)
Revenue			
Electricity		42,054,776	36,447,702
Heat power		943,576	902,974
Other services		555,965	803,933
Gross revenue		**43,554,317**	**38,154,609**
Operating expenses	20	(45,175,451)	(38,557,262)
Operating income	21	885,840	335,575
Results from operating activities		**(735,294)**	**(67,078)**
Finance income, net	22	2,098,165	2,174,114
Foreign exchange gain/(loss)		18,873	(2,152,227)
Share of losses of equity investments	23	–	(103,109)
Impairment of investments in associates	23	–	(13,920,392)
Profit/(loss) before income tax		**1,381,744**	**(14,068,692)**
Income tax expense	14	(617,089)	(589,198)
Profit/(loss) for the year		**764,655**	**(14,657,890)**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(55,675)	46,866
Income tax benefit/(expense) on other comprehensive income	14	19,625	(9,373)
Other comprehensive (loss)/income, net of income tax		**(36,050)**	**37,493**
Total comprehensive income/(loss)		**728,605**	**(14,620,397)**
Profit/(loss) per share, basic and diluted (in RUB per share)	24	0.017	(0.322)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set in Notes 1-28.

WGC-3 Group

Consolidated statement of cash flows

for the year ended 31 December 2011

(in thousands of Russian Roubles)

	Notes	2011	2010 Restated
Cash flows from operating activities			
Profit/(loss) before income tax		**1,381,744**	**(14,068,692)**
Adjustments for:			
Depreciation and amortization	20	2,105,627	1,867,393
Bad debt allowance of accounts receivable	20	514,297	309,163
Impairment of investments	22	217,742	460,928
Income from investing activities and assets held for sale		–	(2,079)
Effect from discounting of long-term receivables	22	6,399	(1,776)
Loss on impairment of property, plant and equipment/(reversal of impairment)	5	2,033,754	(104,701)
Interest income	22	(2,167,480)	(2,631,392)
Foreign exchange gain/(loss)		(18,873)	2,152,227
Change in provisions	18	(784,610)	679,675
Loss from disposal of property, plant and equipment	20	446,059	109,876
Share of loss and impairment of equity accounted investees	23	–	14,023,501
Other non-cash items		(118,368)	486,559
Operating cash flows before working capital changes and income tax paid		**3,616,291**	**3,280,683**
Working capital changes:			
(Increase)/decrease in accounts receivable and prepayments		(1,520,212)	1,789,629
Increase in inventories		(550,228)	(301,649)
Decrease in other assets		–	3,169
Increase/(decrease) in accounts payable and accruals		1,962,962	(143,745)
(Decrease)/increase in taxes payable, other than income tax		(329,246)	659,074
Increase in other liabilities		445,559	28,471
Income tax paid, net of refund		(625,973)	(426,283)
Net cash generated from operating activities		**2,999,153**	**4,889,349**
Cash flows from investing activities			
Purchase of property, plant and equipment and other non-current assets		(14,376,028)	(12,288,927)
Purchase of intangible assets		(41,695)	(38,302)
Purchase of investments in subsidiaries	2,7	(300,000)	(140,000)
Bank deposit returned/(placed), net		11,966,846	(40,012,210)
Proceeds from sale of property, plant and equipment and other non-current assets		51,550	66,838
Interest received		1,192,418	1,381,436
Net cash used in investing activities		**(1,506,909)**	**(51,031,165)**
Effect of exchange rate changes on cash and cash equivalents		(113,600)	(1,749,025)
Net increase/(decrease) in cash and cash equivalents		**1,378,644**	**(47,890,841)**
Cash and cash equivalents at the beginning of the year	12	**3,263,202**	**51,154,043**
Cash and cash equivalents at the end of the year	12	**4,641,846**	**3,263,202**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set in Notes 1-28.

WGC-3 Group

Consolidated statement of changes in equity

for the year ended 31 December 2011

(in thousands of Russian Roubles)

	Attributable to equity holders of the Group					
	Share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 31 December 2010 (Restated)	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,279,378)**	**(4,172,731)**	**90,225,331**
Total comprehensive income for the period						
Acquisition of en entity under common control (Note 2)	–	–	–	–	(300,000)	(300,000)
Profit for the period	–	–	–	–	764,655	764,655
Other comprehensive income						
Net change in fair value of available-for-sale investments in the amount of RUB (55,675) thousand, net of tax	–	–	–	(36,050)	–	(36,050)
Total other comprehensive loss	**–**	**–**	**–**	**(36,050)**	**–**	**(36,050)**
Total comprehensive (loss)/income for the period	**–**	**–**	**–**	**(36,050)**	**464,655**	**428,605**
Balance at 31 December 2011	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,315,428)**	**(3,708,076)**	**90,653,936**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set in Notes 1-28.

WGC-3 Group

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2011

(in thousands of Russian Roubles)

	Attributable to equity holders of the Group					
	Share capital	**Share Premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
Balance at 1 January 2010, as previously reported	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,238,245)**	**10,394,863**	**104,834,058**
Acquisition of an entity under common control (Note 2)	–	–	–	–	11,670	11,670
Write-off of translation reserve (Note 2)	–	–	–	(78,626)	78,626	–
Balance at 1 January 2010 (Restated)	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,316,871)**	**10,485,159**	**104,845,728**
Total comprehensive (loss)/income for the period						
Loss for the year, as previously reported	–	–	–	–	(14,874,510)	(14,874,510)
Profit for the year of an entity acquired under common control (Note 2)					51,312	51,312
Accounting for amended tax return (Note 2)	–	–	–	–	165,308	165,308
Other comprehensive income						
Net change in fair value of available-for-sale investments in the amount of RUB 46,866 thousand, net of tax	–	–	–	37,493	–	37,493
Total other comprehensive income (Restated)	**–**	**–**	**–**	**37,493**	**–**	**37,493**
Total comprehensive income/(loss) for the period (Restated)	**–**	**–**	**–**	**37,493**	**(14,657,890)**	**(14,620,397)**
Balance at 31 December 2010 (Restated)	**47,487,999**	**63,136,744**	**(7,947,303)**	**(8,279,378)**	**(4,172,731)**	**90,225,331**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set in Notes 1-28.

1. The Group and its operations

Open Joint Stock Company “Third Generation Company of the Wholesale Electricity Market” (OJSC “WGC-3” or the “Group”) was established on 23 November 2004 within the framework of the Russian electricity sector restructuring in accordance with Resolution No. 1254-r adopted by the Russian Federation Government on 1 September 2003.

Branches

The Group operates 7 state district power plants (“SDPP”) and its principal activity is electricity and heat generation. These SDPPs are incorporated as production branches. The Group’s branches as at 31 December 2011 are Kostromskaya SDPP, Cherepetskaya SDPP, Pechorskaya SDPP, Kharanorskaya SDPP, Yuzhnouralskaya SDPP, Gusinooserskaya SDPP and Dzhubginskaya TPP.

Subsidiaries

The Group has 11 subsidiaries which are service, heating retail and coal-mining companies and operate in the regions where power plants are located. All subsidiaries are 100% owned and their income is mainly generated by intra-group operations.

Principal shareholders

As at 31 December 2010 the Group’s ultimate controlling party was “MMC “Norilsk Nickel” (77.90% effective ownership).

On 23 March 2011 “MMC “Norilsk Nickel” exchanged ordinary registered shares of OJSC “WGC-3” for ordinary non-documentary shares of OJSC “Inter RAO UES” (“Inter RAO”) with a ratio of 35 shares of Inter RAO for 1 share of OJSC “WGC-3”. As a result, Inter RAO became the parent company of the Group. As at 31 December 2011 Inter RAO owned 81.93% of the Group’s shares. The rest of the shares are held by various minority shareholders and include free float (18.07%). Ultimate controlling party of the Group from 23 March 2011 is the Government of the Russian Federation.

The Group is registered by the District Inspectorate of the Russian Federation Ministry of Taxation of Republic of Buryatiya. The Group’s office is located at bld. 25, Ermolaevsky lane, Moscow, 123001, the Russian Federation.

Operating environment

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.

1. The Group and its operations (continued)

Relations with the state and current regulation

The Group's customer base includes a large number of entities controlled by or related to the Government of the Russian Federation. Moreover, the Government of the Russian Federation controls a number of the Group's fuel and other suppliers.

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

2. Basis of preparation

Statement of compliance

These consolidated financial statements (the "Financial Statements") for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Boards (IASB).

The Group's companies maintain their accounting records in Russian Roubles ("RUB") and prepare their statutory financial statements in accordance with the Federal Law on Accounting of the Russian Federation. The Financial Statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Basis of measurement

The Financial Statements are prepared on the historical cost basis except for financial investments classified as available-for-sale which are measured at fair value.

Functional and presentation currency

The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the functional currency of each of the Group entities and the currency in which these Financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand unless otherwise stated.

Change in presentation

Effective 1 January 2011 the Group started to classify value added tax ("VAT") receivable for advances issued for capital expenditures as other non-current assets or accounts receivable and prepayments depending on expected settlement period. The comparative information has been reclassified to conform to current presentation. The effect of this reclassification is disclosed below:

	1 January 2010		**31 December 2010**	
	As previously reported	**Restated**	**As previously reported**	**Restated**
Property, plant and equipment	38,160,994	36,291,796	48,077,301	45,944,789
Other non-current assets	14,298,608	16,174,896	271,860	2,351,150
Accounts receivable and prepayments	4,176,544	4,188,359	4,854,035	4,907,257

2. Basis of preparation (continued)

Acquisition of an entity under common control

In January 2011 the LLC "Professional hockey club CSKA" was acquire for a cash consideration of RUB 300 million from MK LLL "Sportivnie proekti". Since MK LLL "Sportivnie proekti" was a subsidiary of "MMC "Norilsk Nickel" this transaction was accounted for as a combination of entities under common control.

Comparative information in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity are not the same as those previously presented has been restated and retrospectively presented as follows:

	1 January 2010		31 December 2010	
	As previously reported	Restated	As previously reported	Restated
Total assets	111,169,298	111,209,780	98,931,706	99,175,628
Total liabilities	6,335,240	6,364,052	8,934,665	8,950,297

	For the year ended 31 December 2010	
	As previously reported	Restated
Revenue from operations	37,624,868	38,154,609
Net loss for the period	(14,874,510)	(14,657,890)

In October 2011 the Group sold its investment in LLC "Professional hockey club CSKA" for a cash consideration of RUB 10 thousand to a related party with a gain in the amount of RUB 124,815 thousand (Note 22).

Write off of translation reserve

In 2011 the Group acknowledged that its investment in the share capital of Plug Power (Note 8), should not be accounted for as an associate because no significant influence had been ever exercised by the Group over its operating and financing activities in accordance with the shareholder agreement. Accordingly, the investments in share capital of Plug Power should have been accounted for as available-for-sale financial asset. The Group restated translation reserve and retuned earnings in the total amount of RUB 78,626 thousand resulting in the following changes in the consolidated statement of changes in equity:

	1 January 2010		31 December 2010	
	As previously reported	Restated	As previously reported	Restated
Other reserves	(8,238,245)	(8,316,871)	(8,200,752)	(8,279,378)
Retained earnings	10,394,863	10,473,489	(4,479,647)	(4,401,021)

Accounting for amended income tax return

In 2010 the Group did not reflect changes in current income tax expense based on the amended tax return for 2008-2009 filed in 2010. Accordingly, income tax prepayment as of 31 December 2010 was overstated and current income tax expense for 2010 was understated for the year then ended by RUB 165,308 thousand. Appropriate adjustment has been made to the comparative amounts.

2. Basis of preparation (continued)

Critical accounting estimates and assumptions

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

(a) Allowance for impairment of accounts receivable

Allowance for impairment of accounts receivable is based on the Group's assessment of whether the collectability of specific customer has deteriorated compared to prior estimates. If there is deterioration in a customer's creditworthiness or actual default occurs, the actual results could differ from these estimates (see Notes 10, 27).

(b) Allowance for impairment of other assets

At each reporting date the Group assesses whether there is any indication that the recoverable amount of the Group's assets has declined below the carrying value. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. When such a decline is identified, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recorded in profit or loss in the period in which the reduction is identified. If conditions change and management determines that the value of an asset other than goodwill has increased, the impairment allowance is fully or partially reversed (see Note 5).

(c) Post employment benefits

The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions in respect of current and former employees who are eligible for the benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.).

(d) Tax contingencies

Russian tax legislation is subject to interpretations. The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at each reporting date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than on profit are recognized based on management's best estimates of the expenditure required to settle tax obligations at the reporting date.

(e) Useful lives of property, plant and equipment

The estimation of the useful lives of an item 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 expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

2. Basis of preparation (continued)

Critical accounting estimates and assumptions (continued)

(f) Revenue recognition

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

(g) Decommissioning liability

The estimated costs to rehabilitate land are added to the cost of the land. A liability is recognized based on the net present values for land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of ash dumps estimates and discount rates could affect the carrying amount of this liability.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group's entities.

Principles of consolidation

The Financial Statements comprise the financial statements of OJSC WGC-3 and the financial statements of those entities whose operations are controlled by OJSC WGC-3. Control is presumed to exist when OJSC WGC-3 controls, directly or indirectly through subsidiaries, more than 50% of voting rights.

a) Subsidiaries

Subsidiaries are those entities over which the Group has the ability to control the financial and operating policies generally through ownership of more than one half of the voting rights.

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

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

b) Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which the Group normally owns between 20% and 50% of the voting right. Investments in associates are equity accounted for from the date significant influence commenced until the date when significant influence effectively ceased.

Investments in associates are carried at cost, including goodwill, as adjusted for the Group's share of post-acquisition changes in associate's retained earnings and other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

3. Summary of significant accounting policies (continued)

Principles of consolidation (continued)

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the relevant associates.

c) Acquisition of subsidiaries under common control

Acquisition of subsidiaries from parties under common control is accounted for using pooling-of-the-interests method. Under this method the consolidated financial statements of the combined entity are presented as if the business had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of a subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was previously consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is carried forward to consolidated (combined) financial statements. Any differences between the carrying amount of net assets, including the predecessor entity's goodwill and the consideration given for the acquisition is accounted for as an adjustment to the retained earnings within equity.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale. The extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group). Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Foreign currency transactions

Monetary assets and liabilities, which are held by the Group's entities and denominated in foreign currencies at the reporting date, are translated into RUB 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 monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As at 31 December 2011, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar ("USD") was RUB 32.20: USD 1.00 (31 December 2010: RUB 30.48: USD 1.00, 31 December 2009: RUB 30.24: USD 1.00), between the RUB and EURO - RUB 41.67: EURO 1.00 (31 December 2010: RUB 43.33: EURO 1.00, 31 December 2009: RR 43.39: EURO 1.00).

3. Summary of significant accounting policies (continued)

Property, plant and equipment

Following predecessor's accounting basis property, plant and equipment was initially recognized at the carrying value determined in accordance with IFRS by the predecessors (deemed cost).

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

Depreciation of property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset when it is available for use.

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

Type of facility	Useful life, years
Electricity and heat generation	4-63
Electricity distribution	7-30
Heating networks	4-22
Other	8-10

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

Inventories

Inventories are valued at the lower of net realizable value and weighted average acquisition cost. Net realizable value is estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Allowance is made for potential losses on obsolete or slow-moving inventories, taking into account their expected use and future realizable value.

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and accounts receivable, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets are required. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in the consolidated statement of comprehensive income incorporates any dividend or interest earned on the financial asset.

3. Summary of significant accounting policies (continued)

Financial assets (continued)

(b) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are classified as current assets, unless their maturities exceed 12 months after the balance sheet date. These are classified as non-current assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

(c) Held-to-maturity financial assets

Held to maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and accounts receivable originated by the Group.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets mainly include investments in equity securities. Available-for-sale financial assets held by the Group are stated at their fair value. Gains and losses arising from changes in fair value are recognized in other reserve with the exception of impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets classified as available-for-sale financial assets are recognized directly in the consolidated statement of comprehensive income and remaining changes in fair value are recognized in other reserves with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other reserve is included in the consolidated statement of comprehensive income for the period. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income when the Group's right to receive the dividends is established.

Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

3. Summary of significant accounting policies (continued)

Equity

(a) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(b) Treasury shares

When own shares are repurchased (treasury shares), the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from share premium.

(c) Dividends

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

Intangible assets

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are as follows:

Type of intangible assets	Useful lives (in years)
Computer software	1-5
Licenses	1-5

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Current bank deposits

Current bank deposits include mainly cash deposits in various banks with maturity of more than 3-12 months. Interest earned on deposits is recognized using effective interest method.

3. Summary of significant accounting policies (continued)

Accounts receivable and prepayments

Accounts receivable are recorded inclusive of value added tax. Trade accounts receivable are recognized initially at fair value of consideration receivable and subsequently measured at amortized cost using the effective interest rate method less provision for impairment. Impairment of accounts receivable is identified if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the accounts receivable. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers at the date of origination of the accounts receivable. The primary factors that the Group considers whether a receivable is impaired is its overdue status and reliability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information available for the Group;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Value added tax on purchases and sales

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

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 consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at the balance sheet 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 as per the Financial Statements. 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 balance sheet 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 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.

3. Summary of significant accounting policies (continued)

Deferred income tax (continued)

Deferred tax movements are recorded in the consolidated statement of comprehensive income 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.

Deferred tax is not provided for the undistributed earnings of subsidiaries, as the Group requires profits to be reinvested.

Accounts payable and debts

Accounts payable are stated inclusive of value added tax. Trade accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. If accounts payable and debts 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 liability 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 consolidated statement of comprehensive income (finance costs) as a gain on restructuring, and the non-current portion of the discounted liability is reclassified to other non-current liabilities. The discount is amortized over the period of the restructuring as an interest expense.

Impairment

(a) Financial assets

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

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

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

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

3. Summary of significant accounting policies (continued)

Impairment (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss as an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

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

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Summary of significant accounting policies (continued)

Loans and borrowings

Loans and borrowings are recognized initially at its fair value. If fair value significantly differs from the transaction price, fair value is determined using the prevailing market interest rate for a similar instrument. In subsequent periods, debt is stated at amortized cost using the effective interest rate method; any difference between the fair value at initial recognition (net of transaction costs) and the redemption amount is recognized in the consolidated statement of comprehensive income as an interest expense over the period of the debt obligation.

Employee 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.

The Group offers various post-employment, long-term and jubilee benefits to its employees which are of a defined benefit nature. The defined benefit obligations and costs are assessed using the projected unit credit method. The present value of the 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 associated with the operations of the plan will be paid, and that have terms to maturity approximating the terms of the related liabilities.

Actuarial gains and losses arising from changes in actuarial estimations and exceeding 10% of the obligations are charged or credited to the consolidated statement of operations over the average remaining service lives of employees.

Provisions

Provisions are recorded where there is a present obligation, the outflows of economic benefits are probable and reliable estimates can be made.

Environmental obligations

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

Revenue recognition

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

Social expenditure

To the extent that the community benefits from the Group’s contributions to social programs in general provided no constructive obligation exists to provide such benefits in the future and the benefits are not intended to the Group’s employees, they are recognized in the consolidated statement of comprehensive income as incurred.

3. Summary of significant accounting policies (continued)

Interest

Interest income and expense are recognized in the consolidated statement of comprehensive income for all debt instruments on an accrual basis using the effective interest rate method. Interest income includes nominal interest and amortizes discount and premium. When loans issued become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Fair values

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

(a) Investments in equity securities

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

(b) Trade and other receivables

The fair value of non-current trade and other receivables is estimated as the present value of future cash flows, discounted at the prevailing market rate of interest at the reporting date.

(c) Non-derivative financial liabilities

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

Earnings per share

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

Segment reporting

The Group has a single reportable segment - the generation of electric power and heat in the Russian Federation as the management does not review profit measures for SDPPs or any other components in order to make a decision about allocation of resources. The generation of electricity and heat are related activities and are subject to similar risks and returns; therefore they are reported as one business segment. The Group generates its revenues from the production of electricity and heat in the Russian Federation. The Group holds assets in the same geographical area – the Russian Federation.

3. Summary of significant accounting policies (continued)

Seasonality

Demand for electricity and heat is influenced by both the seasons of the year and the relative severity of the weather. Revenues from heating are concentrated within the months of October to March. A similar, although less intense, concentration of electricity sales occurs within the same period. The seasonality of electricity and heat production has a corresponding impact on the usage of fuel and the purchase of power. Furthermore, during the periods of lower production from April to September, there is an increase in the expenditures on repairs and maintenance. This seasonality does not impact the revenue or cost recognition policies of the Group.

New financial reporting standards and interpretations not yet adopted

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

- IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income.* The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.
- IAS 12 *Income Taxes – Recovery of Underlying Assets*. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.
- IAS 19 *Employee Benefits (*Amendment). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the given amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
- IAS 27 *Separate Financial Statements* (as revised in 2011). As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.
- IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011). As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. Summary of significant accounting policies (continued)

New financial reporting standards and interpretations not yet adopted (continued)

- IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements.* The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.
- IFRS 9 *Financial Instruments: Classification and Measurement*. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013.

  In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- IFRS 10 *Consolidated Financial Statements*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 11 *Joint Arrangements*. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013. The application of this new standard will not impact the financial position of the Group. The Group applies equity accounting to its investment in joint venture NVGRES Holding Limited.
- IFRS 12 *Disclosure of Involvement with Other Entities*. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 *Fair Value Measurement*. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. Related parties

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the year ended 31 December 2011 and for the year ended 31 December 2010 or had significant balances outstanding at 31 December 2011 and at 31 December 2010 is detailed below.

Parent and parent's subsidiaries, associates and joint ventures

The Group had the following significant transactions with Inter RAO and its subsidiaries, associates and joint ventures from 24 March 2011 to 31 December 2011 and with Group "MMC "Norilsk Nickel" and its subsidiaries, associates and joint ventures from 1 January 2010 to 23 March 2011:

	2011	2010 Restated
Electric power and capacity sales	4,463,931	–
Expenses under agreement on transfer of powers of the sole executive body	168,000	–
Other income	232	–
Purchased electric power and capacity	185,041	–
Other expenses	–	834,659

The Group had the following significant balances with the parent company and its subsidiaries, associates and joint ventures:

	31 December 2011	31 December 2010 Restated
Accounts receivable and prepayments	309,560	513
Accounts payable and accruals	167,809	–
Advances for capital construction	1,239,024	–

Management organization

Effective from 1 October 2011 LLC INTER RAO - Electricity Generation Management is a sole executive body for OJSC WGC-3. Expenses under agreement on transfer of powers of the sole executive body with LLC INTER RAO - Electricity Generation Management for the period from 1 October 2011 to 31 December 2011 comprised RR 168,000 thousand.

The Group has balances due to LLC INTER RAO - Electricity Generation Management as at 31 December 2011 in the amount of RUB 132,160 thousand (2010: nil).

Directors' compensation

Key management personnel and members of their family (the members of the Board of Directors and the Management Board of OJSC WGC-3) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

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

4. Related parties (continued)

Directors' compensation (continued)

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

	2011	2010
Remuneration for attending the Board meetings	11,105	–
Total remuneration in the form of salary and bonuses	–	161,366

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

State-controlled entities

In the normal course of business the Group enters into transactions with other entities under common control of the Russian Federation. Prices for natural gas, electric power, capacity and heat are based on tariffs set by FST and RECs.

The total volume of transactions between the Group and other state-controlled entities for the year ended 31 December 2011 was approximately 26% of total electric power, capacity and heat sales, and approximately 97% of total electric power and capacity purchases (for the year ended 31 December 2010: approximately 39% and approximately 100%, respectively).

5. Property, plant and equipment

	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Cost						
Balance as at 31 December 2010, restated	**31,594,389**	**4,130,898**	**998,381**	**26,060,750**	**8,610,824**	**71,395,242**
Additions	663,597	127,112	42,261	14,381,476	1,091,529	**16,305,975**
Disposals	(15,602)	–	–	(491,852)	(90,978)	**(598,432)**
Balance as at 31 December 2011	**32,242,384**	**4,258,010**	**1,040,642**	**39,950,374**	**9,611,375**	**87,102,785**
Accumulated depreciation (including impairment)						
Balance as at 31 December 2010, restated	**(15,486,626)**	**(2,785,075)**	**(574,007)**	**–**	**(6,595,204)**	**(25,440,912)**
Charge for the year	(1,217,334)	(183,162)	(46,383)	–	(598,432)	**(2,045,311)**
Disposals	6,826	–	–	–	33,540	**40,366**
Impairment	(1,495,164)	(208,783)	(77,051)	–	(252,756)	**(2,033,754)**
Balance as at 31 December 2011	**(18,192,298)**	**(3,177,020)**	**(697,441)**	**–**	**(7,412,852)**	**(29,479,611)**
Net book value as at 31 December 2010	**16,107,763**	**1,345,823**	**424,374**	**26,060,750**	**2,015,620**	**45,954,330**
Net book value as at 31 December 2011	**14,050,086**	**1,080,990**	**343,201**	**39,950,374**	**2,198,523**	**57,623,174**

5. Property, plant and equipment (continued)

	Electricity and heat generation	Electricity transmission	Heating networks	Construction in progress	Other	Total
Cost						
Balance at 1 January 2010, restated	30,975,785	4,088,335	977,739	16,212,814	7,940,137	**60,194,810**
Additions	741,668	148,392	20,642	9,869,659	806,352	**11,586,713**
Disposals	(123,064)	(105,829)	–	(21,723)	(135,665)	**(386,281)**
Balance at 31 December 2010, restated	**31,594,389**	**4,130,898**	**998,381**	**26,060,750**	**8,610,824**	**71,395,242**
Accumulated depreciation (including impairment)						
Balance at 1 January 2010, restated	(14,446,065)	(2,734,850)	(532,276)	–	(6,189,823)	**(23,903,014)**
Charge for the year	(1,189,364)	(104,908)	(44,785)	–	(506,581)	**(1,845,638)**
Disposals	57,538	47,021	–	–	98,480	**203,039**
Reversal of impairment	91,265	7,661	3,054	–	2,721	**104,701**
Balance at 31 December 2010, restated	**(15,486,626)**	**(2,785,076)**	**(574,007)**	**–**	**(6,595,203)**	**(25,440,912)**
Net book value at 1 January 2010, restated	**16,529,720**	**1,353,485**	**445,463**	**16,212,814**	**1,750,314**	**36,291,796**
Net book value at 31 December 2010, restated	**16,107,763**	**1,345,822**	**424,374**	**26,060,750**	**2,015,621**	**45,954,330**

At 31 December 2011 construction in progress includes prepayments for property, plant and equipment of RUB 9,686,058 thousand (31 December 2010: RUB 11,847,286 thousand).

The assets transferred to the Group upon privatization did not include the land on which the Group's buildings and facilities are located. The Group has the right to purchase this land (except for the land in Moscow) upon application to the state registration body or to exercise the right for rent after the right expiry date which is 1 January 2012. The Group prolonged its rent contracts for land subsequently.

Impairment

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

- Applied WACC discount rate was 14.10% per annum (2010: 11.40%);
- Regulated electricity sales tariffs and electricity market prices are expected to change by 9%-14% per annum for the period from 2012 to 2030 (2010: 4%-15%);
- Capacity prices are expected to change by 1%-12% for the period from 2012 to 2030 (2010: 3%-23%);
- Gas purchase prices are expected to change by 9%-13% per annum for the period from 2012 to 2030 (2010: 6%-15%);
- Coal purchase prices are expected to change by 9%-11% per annum for the period from 2012 to 2030 (2010: 4%-12%).

As the result of impairment testing at 31 December 2011 the Group recognized an impairment loss in the amount of RUB 2,033,754 thousand regarding the property, plant and equipment of Cherepetskaya SDPP.

5. Property, plant and equipment (continued)

Impairment (continued)

Due to certain restrictions imposed by governmental authorities the Group has no intention to dispose Cherepetskaya SDPP regardless its projected negative future cash flows.

The impairment loss charged to accumulated depreciation as at 31 December 2011 amounts to RUB 2,033,754 thousand (31 December 2010 RUB 6,821 thousand).

Operating leases

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

Non-cancellable operating lease rentals are payable as follows:

	31 December 2011	31 December 2010
Not later than one year	50,789	50,378
More than one year but not later than five years	166,563	164,342
Later than five years	1,110,160	903,135
Total	**1,327,512**	**1,117,855**

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

6. Intangible assets

	Computer software	Licenses	Total
Cost			
Balance at 31 December 2010	**95,875**	**24,932**	**120,807**
Additions	31,626	14,582	46,208
Disposals	–	(6,411)	(6,411)
Balance at 31 December 2011	**127,501**	**33,103**	**160,604**
Amortisation			
Balance at 31 December 2010	**(39,158)**	**(3,194)**	**(42,352)**
Amortisation for the period	(29,609)	(30,707)	(60,316)
Disposals	–	1,898	1,898
Balance at 31 December 2011	**(68,767)**	**(32,003)**	**(100,770)**
Carrying amount			
At 31 December 2010	**56,717**	**21,738**	**78,455**
At 31 December 2011	**58,734**	**1,100**	**59,834**

6. Intangible assets (continued)

	Computer software	Licenses	Total
Cost			
Balance at 31 December 2009	**62,241**	**20,264**	**82,505**
Additions	34,912	4,668	39,580
Disposals	(1,278)	–	(1,278)
Balance at 31 December 2010	**95,875**	**24,932**	**120,807**
Amortisation			
Balance at 31 December 2009	**(19,174)**	**(1,423)**	**(20,597)**
Amortisation for the period	(19,984)	(1,771)	(21,755)
Balance at 31 December 2010	**(39,158)**	**(3,194)**	**(42,352)**
Carrying amount			
At 31 December 2009	**43,067**	**18,841**	**61,908**
At 31 December 2010	**56,717**	**21,738**	**78,455**

7. Acquisitions of a subsidiary

On 27 December 2010 the Group acquired 100% of a coal mining company ROC LLC for RUB 140 million from a third party. The control over ROC LLC's enables the Group to optimize its production process through access to coal resources. Fair value assessment of the net assets acquired was not completed prior to the publication of annual financial statements for the year ended 31 December 2010 and the Group applied provisional accounting for the acquisition. In May 2011 the Group made an assessment of the carrying value of net assets acquired based on financial information of ROC LLC prepared in accordance with IFRS as follows:

Non-current assets	112,205
Current assets	38,309
Non-current liabilities	(10,865)
Current liabilities	(730)
Carrying value of net assets acquired	**138,919**
Total consideration paid	140,000
Difference	**1,081**

The difference between consideration paid and the carrying values of assets acquired and liabilities assumed was recognized to profit and loss.

8. Other non-current assets

	31 December 2011	31 December 2010 Restated	31 December 2009 Restated
Available-for-sale financial assets	395,942	188,105	142,221
Accounts receivable	87,199	83,146	123,977
Value added tax	773,646	2,079,899	1,883,803
Investment in equity accounted investees (Note 23)	–	–	14,023,501
Other	–	–	1,394
Total	**1,256,787**	**2,351,150**	**16,174,896**

8. Other non-current assets (continued)

The available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of other categories of financial assets. The available-for-sale financial assets of the Group comprise quoted and not quoted securities.

The carrying amount of available-for-sale financial assets as of 31 December 2011 includes the Group's investment in quoted securities of Plug Power in the total amount of RUB 291,504 thousand which was accounted for as asset held for sale in the amount of RUB 504,594 thousand as of 31 December 2010. In 2011, the investment in Plug Power was reclassified from held-for-sale category following the decision of new parent of the Group not to dispose the investment in Plug Power. As a result of impairment analysis RUB 205,004 thousand of loss related to decrease in fair value of Plug Power shares and RUB 8,086 thousand of related foreign exchange losses were recognised in the consolidated statement of comprehensive income for the year ended 31 December 2011 (Note 22). In May 2011 the share of the Group in the share capital of Plug Power was reduced from 33.7% to 19.7%.

Other available-for sale financial assets were tested for impairment as of 31 December 2011 with an impairment loss in the amount of RUB 12,738 thousand recognized in the consolidated statement of comprehensive income (2010: RUB 7,230 thousand) (Note 22).

9. Inventories

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Fuel supplies	2,243,641	1,671,573	1,336,940
Materials and supplies	299,301	217,276	257,274
Other	195,240	290,284	305,650
Total	**2,738,182**	**2,179,133**	**1,899,864**

The above inventory balances are recorded net of obsolescence provision of RUB 46,481 thousand, RUB 55,302 thousand and RUB 130 718 thousand as at 31 December 2011, 31 December 2010 and 31 December 2009, respectively.

Also the Group keeps an emergency stock in the amount of RUB 1,497,908 thousand (as at 31 December 2010: RUB 376,860 thousand), mostly represented by fuel and spare parts.

10. Accounts receivable and prepayments

	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
Trade accounts receivable (net of impairment provision for accounts receivable of RUB 1,407,998 thousand as at 31 December 2011, RUB 922,797 thousand as at 31 December 2010 and RUB 609,453 thousand as at 31 December 2009)	2,790,817	1,801,902	2,006,893
Advances to suppliers(net of impairment provision for advances to suppliers of RUB 69,506 thousand as at 31 December 2011, RUB 68,233 thousand as at 31 December 2010 and RUB 68,744 thousand as at 31 December 2009)	225,754	601,472	1,022,983
Value added tax recoverable	2,232,017	749,814	769,523
Interest and other accounts receivable (net of impairment provision for other accounts receivable of RUB 206,444 thousand as at 31 December 2011, RUB 220,180 thousand as at 31 December 2010 and RUB 239,665 thousand as at 31 December 2009)	1,381,832	1,765,151	388,960
Total	**6,630,420**	**4,918,339**	**4,188,359**

The majority of accounts receivables and prepayments are denominated in RUB.

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

	2011	2010 (Restated)
At 1 January	1,211,210	917,862
Utilized	(41,559)	(15,815)
Charge for the year	514,297	309,163
At 31 December	**1,683,948**	**1,211,210**

11. Bank deposits

Rating	Rating agency	Currency	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
E+/Stable	Moody's	RUR	11,521,000	7,734,000	–
Unrated		RUR	7,932,000	7,060,000	–
D-/Stable	Moody's	USD	3,708,121	6,119,904	–
E+/Positive	Moody's	RUR	3,312,500	–	–
D-/Stable	Moody's	RUR	1,318,000	8,415,145	7,500
D-/Stable	Moody's	EURO	–	2,388,879	–
D/Stable	Moody's	RUR	–	7,900,000	–
D+/Stable	Moody's	RUR	–	–	1,393
			27,791,621	**39,617,928**	**8,893**

According to the contracts the deposit repayment can be exercised at any time at 3-5 days notice. Bank deposit periods have original maturity from three to twelve months and yield interest at a fixed rate within the range from 3.35% to 8.94%.

11. Bank deposits (continued)

For the year ended 31 December 2011 interest income on deposits amounted to RUB 2,167,480 thousand (for the year ended 31 December 2010: RUB 2,631,392 thousand).

The Group's bank deposits are short-term and their carrying amount approximates the fair value.

12. Cash and cash equivalents

Rating	Rating agency	Currency	31 December 2011	31 December 2010 (Restated)	31 December 2009 (Restated)
D+/Stable	Moody's	RUR	15,370	723,153	6,236,067
D+/Stable	Moody's	USD	368	373,630	24,606,541
D+/Stable	Moody's	EURO	–	218,670	3,648
D-/Stable	Moody's	EURO	–	–	20,187,005
D-/Stable	Moody's	USD	–	–	22
D-/Stable	Moody's	RUR	21,342	25,744	14,316
E+/Positive	Moody's	RUR	4,005,868	92,152	–
E+/Positive	Moody's	USD	–	–	1,794
E+/Positive	Moody's	EURO	–	–	218
E+/Positive	Moody's	Pound	–	99	111
E+/Stable	Moody's	RUR	2,297	1,634,863	6,451
D/Stable	Moody's	RUR	78,775	111,135	80,896
Unrated		RUR	497,717	25,045	–
Other			20,109	58,711	16,974
			4,641,846	**3,263,202**	**51,154,043**

Cash equivalents include bank deposits with original maturity three months or less.

13. Equity

Share capital

(Number of shares unless otherwise stated)	Ordinary shares 31 December 2011	Ordinary shares 31 December 2010	Ordinary shares 31 December 2009
Issued shares	47,487,999,252	47,487,999,252	47,487,999,252
Par value (in RUB)	1.00	1.00	1.00

Treasury shares

As at 31 December 2011, 2010 and 2009 the number of treasury shares did not change and amounted to 1,966,180,818 shares comprising 4.14% of issued shares of OJSC WGC-3. Treasury shares were purchased in 2008 for total consideration of RUB 7,947,303 thousand recognized in a separate equity line in the consolidated statement of financial position. In February 2012 the Group sold 1,966,180,818 treasury shares (Note 28).

Dividends

In accordance with Russian legislation the Group's distributable reserves are limited to the balance of retained earnings as recorded in the statutory financial statements of OJSC WGC-3 prepared in accordance with Russian Accounting Principles. No dividends were declared or proposed based on year 2011 results.

14. Income tax

Income tax expense	**2011**	**2010 (Restated)**
Current income tax expense	(1,019,239)	(421,708)
Deferred income tax benefit / (expense)	402,150	(167,490)
Total income tax expense	**(617,089)**	**(589,198)**

Enacted income tax rate in 2009-2011 was 20%. In accordance with Russian tax legislation, tax losses in different Group's companies may not be offset against taxable profits of other Group's companies.

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

	2011	**2010 (Restated)**
Profit/(loss) before tax	**1,381,744**	**(14,068,692)**
Theoretical income tax (expense)/benefit using the appropriate statutory tax rate of 20%	(276,349)	2,813,738
Unrecognized deferred tax asset on share in losses from investments in associates	–	(2,804,700)
Tax effect of items which are not deductible or taxable for taxation purposes:	(340,740)	(598,236)
Total income tax expense	**(617,089)**	**(589,198)**

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. At 31 December 2011 deferred tax assets and liabilities are measured at 20%, the rate applicable when the temporary differences are expected to reverse.

Deferred tax liabilities

	31 December 2010 (Restated)	**Movement for year recognized in profit or loss**	**Movement for year recognized in other comprehensive income**	**31 December 2011**
Deferred tax liabilities	**(2,791,136)**	**561,239**	**–**	**(2,229,897)**
Property, plant and equipment	(2,791,136)	561,239	–	(2,229,897)
Deferred tax asset	**307,304**	**(159,089)**	**19,625**	**167,840**
Provisions	109,881	(108,049)	–	1,832
Available-for-sale investments	73,597	(93,222)	19,625	–
Accounts payable	79,483	(56,325)	–	23,158
Inventories	8,378	5,397	–	13,775
Accounts receivable including provision for impairment	11,143	95,365	–	106,508
Long-term available-for-sale investments	24,822	(2,255)	–	22,567
Net deferred tax liabilities	**(2,483,832)**	**402,150**	**19,625**	**(2,062,057)**

Deferred tax assets have not been recognised in respect of share in losses of associates because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

14. Income tax (continued)

Deferred income tax (continued)

Deferred tax liabilities

	1 January 2010 (Restated)	Movement for year recognized in profit or loss (Restated)	Movement for year recognized in other comprehensive income (Restated)	31 December 2010 (Restated)
Deferred tax liabilities	**(2,393,860)**	**(397,276)**	**–**	**(2,791,136)**
Property, plant and equipment	(2,393,860)	(397,276)	–	(2,791,136)
Deferred tax asset	**86,891**	**229,786**	**(9,373)**	**307,304**
Provisions	–	109,881	–	109,881
Assets held for sale	(7,832)	90,802	(9,373)	73,597
Accounts payable	64,515	14,968	–	79,483
Inventories	–	8,378	–	8,378
Accounts receivable including provision for impairment	12,346	(1,203)	–	11,143
Other	17,862	6,960	–	24,822
Net deferred tax liabilities	**(2,306,969)**	**(167,490)**	**(9,373)**	**(2,483,832)**

15. Post employment benefits

The Group provides various long-term and post employment benefits including lump sum payments upon retirement and jubilee benefits to active employees and others. Additionally, the Group provides quarterly financial support payments of a defined benefit nature to its former employees, who have reached the age of the state old age pension.

Amounts recognized in the consolidated statement of financial position:

	31 December 2011	31 December 2010	1 January 2010
Present value of defined benefit obligations (DBO)	570,166	527,240	425,602
Present value of unfunded obligations	570,166	527,240	425,602
Unrecognized net actuarial loss	(123,865)	(136,217)	(51,517)
Unrecognized past service cost	(79,543)	(90,195)	(101,470)
Net liability in statement of financial position	**366,758**	**300,828**	**272,615**

Amounts recognized in the consolidated statement of comprehensive income:

	2011	2010
Current service cost	30,024	30,799
Interest cost	45,694	38,315
Amortization of past service cost	11,275	11,275
Immediate recognition of vested prior service cost	1,935	(8,532)
Recognized actuarial loss/(gain)	8,869	(13,092)
Total	**97,797**	**58,765**

15. Post employment benefits (continued)

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

	2011	2010
Defined benefit obligations at the beginning of the year	527,240	425,602
Current service cost	30,024	30,799
Interest cost	45,694	38,315
Past service cost/(credit)	2,558	(8,532)
Actuarial (gain)/loss	(3,483)	71,608
Benefits paid	(31,867)	(30,552)
Defined benefit obligations at the end of the year	**570,166**	**527,240**

Principal actuarial estimations are as follows:

	31 December 2011	31 December 2010	1 January 2010
Discount rate	8.50	8.00	9.00
Salary increase	7.50	7.50	8.00
Financial support benefits increase	6.00	6.00	6.50
Inflation	6.00	6.00	6.50

Reconciliation of the consolidated statement of financial position:

	31 December 2011	31 December 2010	1 January 2010
Net liability at the beginning of the year	300,828	272,615	207,934
Net expense recognised in the statement of comprehensive income	97,797	58,765	82,459
Benefits paid	(31,867)	(30,552)	(17,778)
Net liability at the end of the year	**366,758**	**300,828**	**272,615**

Historical information on defined benefit plan is as follows:

	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	570,166	527,240	425,602	368,244	278,729
Deficit in the plan	570,166	527,240	425,602	368,244	278,729
Experience adjustments arising on plan liabilities	(23,695)	(226,412)	(152,987)	(160,310)	(128,631)

16. Other non-current liabilities

	31 December 2011	31 December 2010 (Restated)	1 January 2010 (Restated)
Decommissioning liability	278,393	–	–
Other non-current liabilities	101,589	341	83
Total	**379,982**	**341**	**83**

The Group has recognized an obligation to restore lands used for ash dumps and lands occuped by coal pits in the amount of RUB 278 million, which is included in other non-current liabilities with a corresponding increase in property plant and equipment. The discount rate used to calculate the net present value of the future cash outflows relating to the land recultivation was 8.03% at 31 December 2011.

17. Accounts payable and accruals

	31 December 2011	31 December 2010 (Restated)	1 January 2010 (Restated)
Trade accounts payable	4,804,160	2,472,341	1,298,882
Accrued liabilities and other accounts payable	518,985	710,164	611,594
Dividends payable	–	701	95,329
Advances from customers	75,887	72,904	40,335
Total	**5,399,032**	**3,256,110**	**2,046,140**

18. Provisions

Movements in provisions are as follows:

	Note	Tax risks	Legal claims	Total
At 1 January 2010		**38,668**	**75,427**	**114,095**
Charge/(reversal) of provision, net	20	735,435	(55,760)	679,675
At 31 December 2010		**774,103**	**19,667**	**793,770**

	Note	Tax risks	Legal claims	Total
At 31 January 2010		**774,103**	**19,667**	**793,770**
Reversal of provision, net	21	(774,103)	(10,507)	(784,610)
At 31 December 2011		**–**	**9,160**	**9,160**

Tax risks and legal claims provisions were classified as current liabilities because the Group does not have any rights to defer settlements beyond one year.

Tax risks

At 31 December 2010 the Group had disputes with the tax authorities based on the results of the tax audit for 2008 and 2009 years in relation to the water tax accrual. Management assessed, based on their interpretation of the relevant tax legislation that it was probable that certain tax positions taken by the Group would not be sustained, if challenged by the tax authorities. Accordingly, in 2010 the Group recognised a provision for the water tax disputes in the amount of RUB 774,103 thousand. Subsequent court proceedings which took place in 2011 led to re-assessment of the risk of any addtional water tax payments at 31 December 2011 as remote, and the Group reversed the water tax provision.

19. Taxes payable

	31 December 2011	31 December 2010 (Restated)	1 January 2010 (Restated)
Value added tax	1,803,059	1,726,780	1,195,697
Unified social tax	61,949	37,663	21,954
Property tax	71,495	72,434	70,615
Land tax	16,700	21,364	18,994
Water usage tax	358	217,040	128,901
Income tax	52	2,849	163,191
Other taxes	34,206	37,286	24,798
Total	**1,987,819**	**2,115,416**	**1,624,150**

20. Operating expenses

	Notes	2011	2010 (Restated)
Fuel		25,262,426	20,939,812
Employee benefits		5,202,664	4,310,241
Purchased electricity and capacity		2,510,988	3,105,799
Depreciation and amortization	5, 6	2,105,627	1,867,393
Impairment of property, plant and equipment	5	2,033,754	–
Fees to trade system administrator, system operator		786,917	682,138
Raw materials and supplies		899,778	853,711
Transportation of gas		843,413	718,928
Water usage expenses		730,218	260,669
Sponsorship expenses		478,490	1,162,708
Repairs and maintenance		649,580	565,287
Taxes other than income tax		482,053	1,321,312
Transportation services		439,071	99,227
Security services		272,408	226,908
Charge of other provisions	18	–	679,675
Insurance cost		212,831	195,195
Non-refundable VAT		–	123,488
Rent		136,983	101,547
Change in impairment provision for accounts receivable	10	514,297	309,163
Loss from disposal of property, plant and equipment		446,059	109,876
Expenses under management agreement		168,000	–
Consulting, legal and audit services		98,145	87,486
Safety arrangement costs		63,790	50,731
Charity expenses		152,759	89,443
Social overhead costs		55,065	92,340
Loss from inventory write-off		–	53,615
Telecommunication services		33,768	42,228
Business trip expenses		35,566	40,523
Loss from disposal of other property		83,824	17,115
Annual general shareholders meeting expenses		–	15,625
Bank services		25,242	9,671
Other		451,735	425,408
Total operation expenses		**45,175,451**	**38,557,262**

20. Operating expenses

Employee benefits expenses comprise the following:

	2011	2010 (Restated)
Salaries and wages, payroll taxes	4,891,569	4,108,063
Financial aid to employees and pensioners	242,002	173,563
Post employment benefits	69,093	28,615
Employee benefits	**5,202,664**	**4,310,241**

21. Operating income

	Notes	2011	2010 (Restated)
Reversal of other provisions	18	784,610	–
Fines and penalties received		21,865	30,961
Accounts payable derecognition		14,267	29,790
Reversal of inventory impairment provision		8,821	–
Reimbursement of losses on capacity supply agreement		–	7,441
VAT refund		–	96,039
Reversal of impairment loss for property, plant and equipment	5	–	104,701
Other operating income		56,277	66,643
Total		**885,840**	**335,575**

22. Finance income, net

	Notes	2011	2010 Restated
Interest income on bank deposits	11	2,167,480	2,631,392
Impairment of asset held for sale		–	(453,698)
Impairment of available-for-sale financial assets	8	(217,742)	(7,230)
Gain on disposal of a subsidiary	2	124,815	–
Effect from discounting of long-term receivables		(6,399)	1,776
Other, net		30,011	1,874
Total		**2,098,165**	**2,174,114**

23. Share of losses from equity investments

Equity investments in associated company accounted for using the equity method were comprised of the investment in OJSC RUSIA Petroleum Company (RUSIA Petroleum).

Balance at 1 January 2010 (Note 8)	14,023,501
Share of loss of equity accounted investment for six month ended 31 December 2010	(103,109)
Impairment of investment in associate	(13,920,392)
Balance at 31 December 2010	**–**

23. Share of losses of equity investments (continued)

On 20 October 2008 the Group acquired 25% (minus one share) of RUSIA Petroleum which holds a license for Kovyktinskoe gas condensate field, one of the most strategically important gas fields in Russia with estimated gas resources in excess of 2 trillion cubic meters.

In 2010 TNK-BP, majority shareholder of RUSIA Petroleum, requested an immediate repayment of loans which it issued to RUSIA Petroleum amounting RUB 11,871,749 thousand. Subsequently, RUSIA Petroleum filed for its bankruptcy due to inability to repay its debts. According to a court decision, in June 2010 a monitoring procedure was introduced in respect of RUSIA Petroleum in accordance with the Russian law on bankruptcy.

On 19 October 2010 the court issued a decision to approve the bankruptcy of RUSIA Petroleum. Assets of RUSIA Petroleum were sold through public sale to OJSC Gazprom. The Group may partially recover the value of the investment in the future but currently the management cannot reliably assess the amounts that would be recovered.

As a result, the Group recognized the impairment loss in the amount of the carrying value of investment of RUB 13,920,392 thousand in the fourth quarter of 2010.

24. Earnings per share

	For the year ended 31 December 2011	For the year ended 31 December 2010
Profit/(loss) attributable to the shareholders of OJSC WGC-3 (thousands of RUB)	764,655	(14,657,890)
Weighted average number of ordinary shares issued (thousands of shares)	45,521,818	45,521,818
Profit/(loss) per share, basic and diluted (in RUB per share)	**0.017**	**(0.322)**

25. Commitments

Capital commitments

Future capital expenditure for which contracts have been signed amounted to RUB 37,137,771 thousand at 31 December 2011 (at 31 December 2010: RUB 36,227,950 thousand).

In connection with Resolution No. 89 of the RF Government dated 24 February 2010 “On Certain Issues relating to the Organization of the Long-Term Consumption of Power on a Competitive Basis on the Wholesale Market for Electricity (Capacity)”, Resolution No. 238 of the RF Government dated 13 April 2010 “On Determining the Pricing Parameters for Trading in Capacity on the Wholesale Market for Electricity (Capacity) in the Transitional Period”, and also Instruction No. 1334-r of the Government dated 11 August 2010 “On Approving the List of Generating Assets which Shall be Used to Supply Capacity under Contracts on the Provision of Capacity”, the non-profit partnership Market Council developed a contractual framework jointly with participants on the wholesale market for the sale of the capacity of new generating assets, which are built in accordance with the investment programs of suppliers and approved by the Government of the Russian Federation within the scope of the approval of the comprehensive investment program of OAO RAO UES of Russia.

25. Commitments (continued)

Capital commitments (continued)

In accordance with this contractual framework, the suppliers will conclude an agency agreement with CJSC CFS (Center of Financial Settlements) OJSC ATS (Administrator of Trading System of Wholesale Electricity Market), NPP Market Council and OJSC SO-CDU (System Operator the Central Despatch Unit of Unified Energy System) on the sale of invested capacity. To discharge this contract, CJSC CFS, at the instructions and on behalf of the supplier, will conclude contracts with all the buyers of electricity (capacity) on the provision of capacity.

On 1 November 2010 the Group concluded the Agency Agreement with CJSC CFS, OJSC ATS, NPP Market Council and OJSC SO-CDU, in accordance with which CJSC CFS undertakes to conclude contracts on the provision of capacity on behalf of the Group.

In December 2010 CJSC CFS on the Group's behalf concluded contracts for the provision of capacity, scheduled for the commissioning of generating assets with a total capacity of 2,220.72 MWt. Pursuant to the terms and conditions of the Agency Agreement, if the Group violates the timeframe for commissioning the generating assets, or fails to deliver sufficient capacity, the Group should pay a forfeit to the Agent, the size of which depends on the extent of the delay in the commissioning of the generating asset, the amount of the capacity that was not delivered and the price of this capacity under a long-term capacity contract. Management of the Group does not expect any default or failure to fulfil obligations under the contracts for the provision of capacity.

26. Contingencies

Political environment

The operations and earnings of the Group's entities 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 the Russian Federation.

Insurance

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

Legal proceedings

The Group entities are 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 and not provided for which, upon final disposition, will have a material adverse effect on the financial position of the Group (Note 18).

26. Contingencies (continued)

Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretation, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities, in particular the way of accounting for tax purposes of tariff imbalance, water tax, deductibility of certain expenses and property received in the course of reorganisation. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceedings the year of review. Under certain circumstances review may cover longer periods.

As at 31 December 2011 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax currency and customs positions will be sustained except for tax provision and possible risks disclosed at Note 18. 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 reorganisation 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 reorganisation and reform process.

Environmental matters

Group's entities and their 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 posture of government authorities is continually being reconsidered. Group's entities periodically evaluate their obligations under environmental regulations.

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 environment under existing legislation, management believes that there are no significant liabilities for environmental damage, except for decommissioning liability in respect of ash dumps (Note 16).

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, liquidity risk, and the collectability of accounts receivable. The Group does not have a risk policy to hedge its financial exposures.

Credit risk

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

27. Financial instruments and financial risks

Trade accounts receivable

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

Credit risk is managed on a group's basis. For wholesale customers there is no independent rating and, therefore, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The bad debt allowance and write-off of accounts receivable are, therefore, calculated based on analysis of collectability.

Investments and cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and with counterparties that have a reliable credit rating. Management does not expect any counterparty to fail to meet its obligations. The cash has been deposited in the financial institutions with no more than minimal exposure to the default risk on the date of deposit placed.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Narrative	Rating	Rating agency	Currency	31 December 2011	31 December 2010
Accounts receivable					
CJSC Center of financial settlements	unrated	–	RUB	1,144,037	840,056
OJSC Dagestanskaya energy retail company	unrated	–	RUB	418,965	28,888
OJSC Nurenergo	unrated	–	RUB	245,621	–
Suvorovskoe MUPPKH	unrated	–	RUB	149,666	–
OJSC Mosenergosbyt energy retail company	unrated	–	RUB	109,063	–
OJSC Buryatenergosbyt energy retail company	unrated	–	RUB	100,988	–
OJSC Chelyabenergosbyt energy retail company	unrated	–	RUB	99,940	–
OJSC Komi energy retail company	unrated	–	RUB	89,386	113,796
LTD RUSENERGOSBYT	unrated	–	RUB	75,024	–
OJSC Tulaenergosbyt energy retail company	unrated	–	RUB	60,966	–
OJSC Nizhegorodskaya energy retail company	unrated	–	RUB	55,972	233,236
OJSC RUSAL Kandalaksha Aluminium Smelter	unrated	–	RUB	17,377	5,660
Other trade accounts receivable				223,812	580,266
Other accounts receivable				1,381,832	1,765,151
Total accounts receivable				**4,172,649**	**3,567,053**

The credit quality of cash in bank balances and bank deposits was analyzed in Notes 11-12. Management monitors credit risk on regular basis and cash and cash equivalents are held in reliable banks.

27. Financial instruments and financial risks (continued)

Impairment losses

The aging of accounts receivable at the reporting date was:

	Gross 31 December 2011	Impairment 31 December 2011	Gross 31 December 2010	Impairment 31 December 2010
Not past due	4,013,758	–	3,463,507	–
Past due 0-180 days	92,312	(3,519)	338,885	(261,426)
Past due 181-365 days	176,744	(106,646)	246,741	(220,654)
Past due more than 365 days	1,504,279	(1,504,279)	660,897	(660,897)
Total	**5,787,093**	**(1,614,444)**	**4,710,030**	**(1,142,977)**

The Group has the following balances of accounts receivable which are not passed due but impaired as at 31 December 2011:

	31 December 2011	31 December 2010
OJSC Dagestanskaya energy retail company	32,191	–
OJSC Nizhegorodskaya energy retail company	6,278	–
OJSC Nurenergo	3,556	–
OJSC Ingushenergo	2,277	–
OJSC Severokavkazenenergo	1,549	–
OJSC Tuva energy retail company	458	–
Total	**46,309**	**–**

Guarantees received

Guaranties received as at 31 December 2011 for engineering, procurement and construction agreements relate to energy unit construction at Kharanorskaya SDPP and Chrepetskaya SDPP, construction of the Power complex at Yugnouralskaya SDPP-2 and reconstruction and power unit restoration at Gusinoozerskaya SDPP are presented below:

			Amount	
Guarantor	**Creditor**	**Maturity date**	**Currency EUR**	**Equivalent in RUB, th.**
Alfa-Bank	LLC “QUARTZ – New technology”	31.10.2015	–	842,938
Alfa-Bank	CJSC “Atomstroyexport”	28.11.2014	–	1,183,275
Alfa-Bank	CJSC “Atomstroyexport”	28.11.2014	17,441,146	726,797
VTB bank	CJSC “Enegiya-servise”	15.01.2014	–	566,424
Gazprombank	OJSC “Technopromexport”	03.08.2013	–	1,552,087
Gazprombank	OJSC “Technopromexport”	03.08.2013	–	1,535,758
Alfa-Bank	LLC “QUARTZ – New technology”	31.10.2013	–	1,393,832
Gazprombank	OJSC “Technopromexport”	03.11.2013	–	1,241,669
Gazprombank	OJSC “Technopromexport”	03.05.2013	–	1,241,669
Gazprombank	OJSC “Technopromexport”	03.08.2013	–	984,919
Alfa-Bank	CJSC “Atomstroyexport”	31.10.2012	38,432,433	1,601,533
Alfa-Bank	CJSC “Atomstroyexport”	31.10.2012	–	953,948
Alfa-Bank	CJSC “Atomstroyexport”	31.10.2012	–	551,146
Alfa-Bank	CJSC “Atomstroyexport”	31.10.2012	11,575,837	482,381
Rosbank	Branch of CJSC “Energoprojekt” – “Tsentrenergoproekt”	29.10.2012	–	608,700
VTB bank	CJSC “Enegiya-servise”	14.02.2012	–	839,363
Other	CJSC “Atomstroyexport”	31.10.2012	–	1,181,118
Total			**67,449,416**	**17,487,557**

27. Financial instruments and financial risks (continued)

Impairment losses (continued)

Collateral received

Collateral received as at 31 December 2011 for projecting, supply and construction agreements relate to energy unit construction at Kharanorskaya SDPP is presented below.

Pledger	Maturity date	Currency	Amount
CJSC "Energoproject"	29.10.2012	RUB	40,638
CJSC "Energoproject"	29.10.2012	RUB	29,456
OJSC "Technopromexport"	30.01.2012	RUB	181,566
Other			126,290
Total			**377,950**

Interest rate risk

The Group's operating profits and cash flows from operating activities are largely not dependent on the changes in market interest rates. At 31 December 2011 the Group has significant short-term interest-bearing assets. The interest rates on these assets are fixed; these are disclosed in Note 11. They are not exposed to significant interest rate risk through market value fluctuations as the interest-bearing assets are short-term.

The Group has no interest-bearing loans and borrowings which would expose the Group to interest rate risk through market value fluctuations.

Currency risk

Power and heat produced by the Group is sold on the domestic market of Russian Federation with prices fixed in the currency of Russian Federation. Therefore, the Group's net exposure to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group's entities is insignificant. The financial condition of the Group, its liquidity, financing sources and the results of activities do not considerably depend on currency rates since the Group activities are performed in such a way that its assets and liabilities are mainly denominated in the national currency. Moreover, the Group does not plan to perform activities on the foreign markets. That is why foreign currency rates fluctuations do not have significant impact on the financial position of the Group.

However, the Group is exposed to foreign exchange risk arising from bank deposits denominated in foreign currencies (see Note 12) and contractual liabilities denominated in US dollars and Euro. Contractual liabilities to suppliers denominated in foreign currency are presented below:

Contractual foreign currency obligations	31 December 2011	31 December 2010
EUR, thousands	19,784	136,147
USD, thousands	–	9

27. Financial instruments and financial risks (continued)

Currency risk (continued)

The following table presents sensitivity analysis of profit and loss and equity to reasonably possible changes in the exchange rates applied at the balance sheet date relative to the functional currency of the respective Group's entities, with all other variables held constant.

The exposure was calculated for bank deposits denominated in currencies other than the functional currency of the respective entity of the Group.

	31 December 2011		**31 December 2010**	
In thousands of Russian Roubles	**Impact on profit or loss**		**Impact on profit or loss**	
US Dollar strengthening	+14,81%	549,155	+10%	611,990
US Dollar weakening	-13,22%	(490,330)	-10%	(611,990)
EURO strengthening	+2,19%	–	+10%	238,888
EURO weakening	-3,68%	–	-10%	(238,888)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of equity and debt funding.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on their maturity. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Narrative	**Less than 1 year, carrying amount**
At 31 December 2011	
Trade and other accounts payable	5,323,145
At 31 December 2010	
Trade and other accounts payable	3,183,206

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of natural gas. In 2011 the Group concluded a long-term contract for purchase of natural gas with one of the Russian natural gas producers for a period from 2012 to 2015. The contract price depends on regulated price annually or biannually established by FST and adjusted in the event of difference between actual volume of natural gas consumed by the Group and quarterly agreed volumes in accordance with the contract.

27. Financial instruments and financial risks (continued)

Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings shown in the consolidated statement of financial position less cash and cash equivalents. Total capital is calculated as equity shown in the consolidated statement of financial position, plus net debt.

Taking into consideration the absence of borrowings as at 31 December 2011 and significant amount of short-term bank deposits the Group is not exposed to the capital risk at 31 December 2011 and 2010.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation techniques. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and, therefore, not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Available-for-sale financial assets are recognised in the consolidated statement of financial position at their fair value. Fair values were determined based on quoted market prices except for available-for-sale financial assets which are not traded at open market and accordingly, recognized at fair value determined by a valuation technique.

The carrying value less impairment provision for trade receivables as well as accounts payable and accruals is assumed to approximate their fair values due to their short-term nature.

The Group's deposits in banks are short-term and their carrying amount approximates fair value.

The maximum exposure for each risk is limited to the fair value of each class of financial instrument.

27. Financial instruments and financial risks (continued)

Fair value hierarchy

Available for sale financial assets which are quoted at open market are stated at fair value and fall into Level 1 category in the fair value hierarchy (Note 8). All other available for sale financial assets fall into Level 2 category in the fair value hierarchy.

28. Events subsequent to the reporting date

In February 2012 the Group sold its 1,966,180,818 treasury shares for a cash consideration of RUB 1,877,119 thousand (Note 13).

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